

# AUDIT COMMITTEE AGENDA



Thursday 17<sup>th</sup> May 2007

at 10.00am

in Room 1  
Ow ton Manor Community Centre  
Wynyard Road, Hartlepool

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 5<sup>th</sup> April 2007 (*attached*)
4. **ITEMS FOR DISCUSSION/DECISION**
  - 4.1 Audit Commission Report – Annual Audit and Inspection Letter – *Chief Financial Officer*
  - 4.2 Audit Committee Annual Review – *Head of Audit and Governance*
  - 4.3 Internal Audit Outcome Report 2006/07 – *Head of Audit of Governance*
  - 4.4 Statement on Internal Control 2006/07 – *Chief Financial Officer*
5. **ANY OTHER ITEMS WHICH THE CHAIR CONSIDERS ARE URGENT**

# **AUDIT COMMITTEE**

## **MINUTES AND DECISION RECORD**

5 April 2007

The meeting commenced at 10.00 a.m. in the Civic Centre, Hartlepool

**Present:**

Councillor Gerard Hall (In the Chair)

Councillors Arthur Preece and Michael Turner.

Officers: Mike Ward, Chief Financial Officer  
Noel Adamson, Head of Audit and Governance  
David Cosgrove, Principal Democratic Services Officer

Also Present Caroline Tyrell, Audit Commission

### **20. Apologies for Absence**

None.

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

None.

### **22. Confirmation of the minutes of the meeting held on 4 January 2007**

Confirmed.

### **23. Audit Commission Report – Use of Resources** *(Chief Financial Officer)*

Caroline Tyrell from the Audit Commission presented to the Committee the Use of Resources assessment which evaluated how well councils manage and use their financial resources. The assessment focused 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.

Mrs Tyrell commented that the Council had achieved Level 3 "Consistently above minimum requirements – performing well" in four of the four areas assessed and improved its score in the area of Internal Control. These level

3 scores were well deserved and were a very good result for the Council. It was highlighted that in the area of Internal Control, the scores had improved following the improvements implemented following the previous assessment. Full details of all the assessment scores were set out in the Audit Commission's report which was submitted as an appendix to the report.

One of the specific issues raised in the report and discussed by the Committee was the reference to the Council producing an annual report or similar document that should include the summary of the Council's accounts and an explanation of key financial information for the public. It was suggested that the Council consult stakeholders on the need to produce such an annual report. The Chief Financial Officer stated that officers had been reviewing this issue and had considered publishing some financial information in 'Hartbeat'. While this would be a good move for the Council, Mrs Tyrell did comment that the Audit Commission would be looking for evidence of consultation on what was published and how it was presented.

The Chief Financial Officer commented that the report gave the authority useful information on where to target its resources to bring about improvements in the Council's use and control of resources. However, consideration needed to be given as to where those improvements should be targeted given the available resources of the authority. Should those areas scoring Level 3 be targeted to move them to Level 4 thus bringing the authority the kudos of operating at 'best practice' levels or should those areas scoring Level 2 be targeted to bring the whole of the authority's assessment areas up to Level 3. The Chief Financial Officer considered that the latter was the only sensible course of action for the authority but those areas that had been assessed as Level 3 would still need to be maintained in order to ensure that they met the ever increasing standards required.

### **Decision**

1. That the Audit Commission's Use of Resources Assessment be noted and that Caroline Tyrell be thanked for her attendance at the meeting and her responses to Member's questions.
2. That consultation on the production of an annual report be undertaken to communicate to external stakeholders the high and improving standards of financial management and value for money maintained within the authority.

## **24. Internal Audit Plan 2006/07 -Update** *(Head of Audit and Governance)*

The Head of Audit and Governance highlighted that 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 allowed 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. Appendix A of the report detailed the pieces of work that have been completed and Appendix B detailed the audits that were ongoing at the time of compiling the report.

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. The work completed and currently ongoing was 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.

Members questioned if there was any audit work being undertaken with schools in relation to equal pay awards and Single Status. The Chief Financial Officer indicated that the Audit Team were not involved in this area of work at this time. School Governing Bodies had been informed of their responsibilities in relation to these issues and updated on progress.

### **Decision**

That the report be noted.

## **25. Internal Audit Charter** (*Head of Audit and Governance*)

The Head of Audit and Governance reported that 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 was required to produce an audit charter.

The Audit Charter was effectively the terms of reference for Internal Audit and fulfilled 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.

The updated Internal Audit Charter was attached as Appendix A to the report. The updated charter also reflected the new Code of Practice produced by CIPFA in 2006.

The Chief Financial Officer requested that the new charter be forwarded to Council for approval and adoption.

#### **Decision**

That the revised Internal Audit Charter be submitted to Council for approval and adoption.

### **26. Internal Audit Strategy** *(Head of Audit and Governance)*

The Head of Audit and Governance indicated that 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 was required to produce an audit strategy.

The revised strategy submitted as an appendix to the report updated the previous document and was a high level statement of how the internal audit service would be delivered and developed in accordance with its charter and how it links to organisational objectives and priorities. The strategy was included as part of the Internal Audit Manual and set the context within which more detailed plans were developed.

The strategy communicates the contribution that Internal Audit makes to the council and included:

- 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.

#### **Decision**

That the Internal Audit Strategy be approved.

### **27. Any Other Items that the Chairman considers are Urgent**

The Chairman indicated that following the previous discussions on the Audit Commission's Use of Resources Assessment, the Committee had discussed the issue of an annual financial report for the council. The Chairman suggested to the Committee that the production of an annual report on the work of the Audit Committee itself may be worth considering setting out for all members of the Council how the committee was monitoring the audit work undertaken within the authority. The members present supported the suggestion and requested that an annual report for the Audit Committee be prepared.

CHAIRMAN

## **AUDIT COMMITTEE**

**17<sup>th</sup> May 2007**



**Report of:** Chief Financial Officer

**Subject:** AUDIT COMMISSION REPORT- ANNUAL  
AUDIT AND INSPECTION LETTER.

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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 Annual Audit and Inspection Letter.

### **2. BACKGROUND**

- 2.1 The Audit Commission present the Annual Audit and Inspection Letter to provide an overall summary of their assessment of the Council. It draws on the findings and conclusions from the audit of the Council and from the Corporate Assessment and inspections that have been undertaken in the last year and from a wider analysis of the Council's performance and its improvement over the last year, as measured through the Comprehensive Performance Assessment (CPA) framework.

### **3. FINDINGS OF THE AUDIT COMMISSION**

- 3.1 Attached, as Appendix 1, is the Audit Commission Annual Audit and Inspection Letter. The main messages for the Council included in this report are:
- The Council has maintained its 4 star status and is improving well. It also received unqualified opinions on its accounts and on its value for money arrangements and our recent corporate assessment of the Council identified it as performing well.
  - The Council works well with its partners to deliver good services and an improving quality of life to the people of Hartlepool.
- 3.2 It is also noted that the Council needs to formalise its medium term financial strategy in order to continue to deliver its services and at the same time maintain an appropriate level of reserves.

### **4. RECOMMENDATIONS**

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

# **Annual Audit and Inspection Letter**

**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.

### **Status of our reports**

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to 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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## Our overall summary

- 1 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the findings and conclusions from the audit of the Council and from the Corporate Assessment and inspections that have been undertaken in the last year and from a wider analysis of the Council's performance and its improvement over the last year, as measured through the Comprehensive Performance Assessment (CPA) framework.
- 2 The report is addressed to the Council, in particular it has been written for councillors, but is available as a public document for stakeholders, including members of the community served by the Council.
- 3 The main messages for the Council included in this report are:
  - The Council has maintained its 4 star status and is improving well. It also received unqualified opinions on its accounts and on its value for money arrangements and our recent corporate assessment of the Council identified it as performing well.
  - The Council works well with its partners to deliver good services and an improving quality of life to the people of Hartlepool.
  - The Council has a significant and increasing level of reserves to support future expenditure.

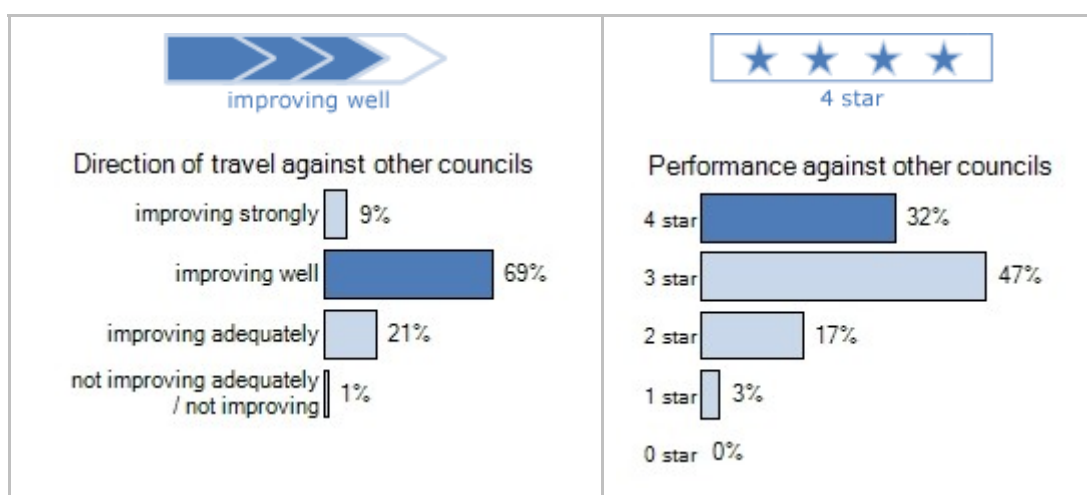
## Action needed by the Council

- 4 In order maintain its progress the Council needs to:
  - address those issues identified by the corporate assessment as areas for improvement; and
  - take forward its proposed action and consider the results of the latest user satisfaction survey and determine if improvements in some services, for example in waste collection and recycling need to be made.
- 5 Develop a robust financial strategy to support the Council's ambitious plans for the future.

## How is Hartlepool Council performing?

- 6 The Audit Commission's overall judgement is that Hartlepool Council is improving well and we have classified Hartlepool Council as four stars in its current level of performance under the Comprehensive Performance Assessment.
- 7 These assessments have been completed in all single tier and county councils with the following results.

**Table 1**



Source: Audit Commission

- 8 The detailed assessment for Hartlepool Council is as follows.

### Our overall assessment - the CPA scorecard

**Table 2 CPA scorecard**

Element	Assessment
Direction of Travel judgement	Improving well
Overall	4 Stars
Current performance	out of 4
Children and young people	3
Social care (adults)	3
Use of resources	3
Housing	3
Environment	3
Culture	3

Element	Assessment
Benefits	4
Previous corporate assessment/capacity to improve, as included in overall CPA judgement in 2006	4

(Note: 1 = lowest, 4 = highest)

### CPA Scorecard Summary

- 9 The Council continues to make progress in all areas identified as priorities. Additional investment in education has led to improved levels of achievement at several key stages and a further reduction in school exclusions. People are in better health, although the gap between Hartlepool and the national average is widening. The management of a small number of services to support vulnerable people has been improved in response to an inspection highlighting the need for change. Most crime levels have fallen considerably, with performance well ahead of agreed targets. People feel safer and drugs misuse is being actively tackled. Almost all new homes are being built on derelict land.
- 10 The contribution to wider community outcomes is strong, particularly in relation to economic regeneration where jobs and business start ups have increased. The Council engages well with all communities who are actively involved in local planning. Organisational and financial capacity, including value for money, is good; but some aspects of organisational change are progressing slowly.
- 11 The potential for further improvement is enhanced through strong leadership and effective scrutiny within the Council.

## The improvement since last year - our Direction of Travel report

- 12 The Council is improving in all of the priority areas set by the Hartlepool Partnership. These are: jobs and the economy, lifelong learning and skills, health and care, community safety, environment and housing, culture and leisure, and strengthening communities.
- 13 There has been continued improvement in educational achievement where Hartlepool is the third most improving authority in the country for key stage two results. The Council has made additional investments in education and there has been a 6% increase in the number of pupils obtaining 5 GCSE A-C grades. There has also been improvement in relation to services provided for those children and young people at risk of social exclusion. Fixed term exclusion rates are down and now very low in primary schools. Exclusions rates in secondary have fallen over a three year period but remain unchanged over the last 12 months.

- 14 Health and care continue to be a priority for the Council. Health is improving generally but the gap between Hartlepool and other areas is widening. Premature deaths from heart disease and cancer have reduced and are on track to meet local targets, but the gap between Hartlepool figures and national averages is widening. The smoking cessation four week quitter rates are among the best in the country. The incidence of teenage pregnancies is still very high but has reduced. The Council's supporting people services were rated as poor in an inspection report published in February 2006, but the Council has responded well to the report and introduced a number of changes which are beginning to impact on the quality of services to vulnerable groups. More vulnerable people are able to live at home and the benefits service continues to be judged as excellent by the BFI.
- 15 Community Safety is generally improving. Crime levels remain high in comparison, but the gap between Hartlepool and the rest of the country is narrowing having fallen from 41 to 25 per cent above average. Domestic burglary and vehicle crime have halved in the past two years and are falling faster than national averages. In the New Deal for Communities area, the fear of crime has been substantially reduced. Despite these improvements, the position on violence against the person is in the worst quartile and showing substantial deterioration. Accident levels, particularly among young people, are falling.
- 16 Environmental and housing currently form a single priority and again the Council continues to perform well. Work to meet the decent homes standard is on track to meet government requirements. Public satisfaction with cleanliness is also high and environmental campaigns led by the Mayor have proved to be effective in improving the area. There is more use of derelict sites for development with almost all new dwellings built on previously developed land. Total waste generated is reducing and recycling has been increased to 25 per cent in the first half of 2006/07.
- 17 The promotion of cultural and leisure services is one of the Council's priority areas. Although service costs are high, Hartlepool is the smallest unitary authority and these reflect the full range of cultural services offered. There are good satisfaction rates for library services and the Council now meets nine out of ten of the library standards. Services being developed include Sunday opening and an extensive home delivery service. The Council has been very successful this year, in being confirmed as the UK host for the 2010 Tall Ships Race, which will have a significant impact on the cultural and leisure opportunities open to local people.
- 18 The Council makes a strong contribution to wider community outcomes, particularly in relation to economic regeneration and the priority on jobs and the economy. Development work in the marina area has led to an increase in the number of visitors. The gap between Hartlepool and national employment rates has narrowed; self-employment and small business start ups has increased and 1,150 jobs have been created in the last three years. Emergency planning, in collaboration with partners is good.

- 19** Communities are very involved in the development of plans for regeneration and in their monitoring. Work to promote community cohesion is at an early stage, but the Council is working closely with the police to respond to local incidents. The Hartlepool Partnership and the Council have a thorough, inclusive and open approach to consultation with local people and a good knowledge of their needs. In the Housing Market Renewal area of the town the quality of communication and involvement has led to very few objections to the Compulsory Purchase Orders. Children and young people were engaged effectively in the development of the Children and Young People's Plan and feel confident that their aspirations and views are taken fully into account. Work on the preparation of Neighbourhood Action Plans (NAPs), which each identify priorities for their areas, involve ward councillors and local residents.
- 20** The Council is improving its approach to identifying the priorities of minority communities, through its successful Talking with Communities initiative, which engages with minority groups to provide information about Council services and seeks the views of these groups. It has long-standing consultation arrangements with disabled people and new arrangements for consultation with the lesbian and gay community. A thorough action plan towards the achievement of Level 3 of the Equality Standard for Local Government in early 2008 is being progressed. The proportions of staff from ethnic minority communities or with a disability are increasing, but remain low in relation to the borough's population. Departments have equality and diversity objectives and action plans and are carrying out impact statements.
- 21** The Council provides good value for money. The Council is continuing to produce high quality services and generates high rates of public satisfaction for many areas of its work. This is achieved against a local context which places Hartlepool as the 14th most deprived borough in the country. Areas of high spending are clearly in line with Council and community priorities. An 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 used internal reviews to produce substantial savings and service improvement in a number of priority areas, including the attainment of children and young people at most key stages, the cost and quality of external care placements and the care of adults in residential care settings.
- 22** The Council, together with partners has a clear vision to improve the quality of life in Hartlepool. This is clearly stated in the Community Strategy 2002-2015 and together with its action plan, sets out clear and challenging ambitions for the borough. Actions and responsibilities within the plan are clear. Housing has been given greater prominence in the revised Strategy because of its importance to local people. The Council's own Corporate Plan and the Community Strategy's link to each other as part of the integrated framework for the borough.

- 23 The results of good performance management are clear and milestones are being achieved. Both service performance and the rate of improvement as measured by national performance indicators are among the best in the country. It is continuing to perform well in the way it is improving against the Audit Commission's PIs used in assessing CPA, where only seven other similar councils have performed better. Based on this comparative basket of PIs used in assessing CPA, 73 per cent have improved and 42 per cent are in the top quartile, which is well above the average.
- 24 Capacity continues to improve. 'The Way Forward' change programme continues to support organisational change and efficiency. Staff turnover is low. Some change is slow, with the projected outcomes from the business process re-engineering programme either modest or not quantified. New approaches to reduce high sickness absence are beginning to have some effect.
- 25 Financial capacity is good, but the approach to strategic procurement is underdeveloped. Overall financial capacity is greatly enhanced by the Council's ability to attract significant external funding, which is well managed. It is regarded as an excellent partner by those with whom it works and partnership working is used well by the Council to build and enhance capacity. Notable examples are the Housing Market Renewal project, the new £34 million Hartlands extra care village and the joint work of the Council's neighbourhood warden service and the Cleveland Police neighbourhood policing pilot in the New Deal for Communities area of the town. Risk management is effective.
- 26 Strong corporate governance arrangements provide a sound basis for continued improvement. Political arrangements are stable and there are good relations between councillors and officers. Both political and management leadership are good and the Mayoral function is very effectively delivered, with good community and Council leadership. The scrutiny process is much improved, where it has made an impact in a number of areas, for example on bus transport, railway approaches and flooding, and has demonstrated thorough work including on boys' attainment.

## Corporate assessment

- 27 The field work for this was undertaken between October and December 2006. The summary of the report is as follows.

### Executive Summary

- 28 Hartlepool Borough Council is performing well. Ambitions and action to achieve them are founded on a strong drive to improve life in Hartlepool. The Council has a very good understanding of the significant needs which have been generated by industrial decline and long-standing deprivation and of local people's priorities.
- 29 There has been significant progress in improving outcomes for local people in Hartlepool, and the gap between the quality of life in Hartlepool and other areas has narrowed in most respects. The achievements are supported by excellent partnership working and by very effective community leadership by the Council.



- 30 While the quality of life in Hartlepool is still poorer than national averages, the Council and its partners share a determination to improve outcomes for local people. This commonality of purpose is very strong and informs the way the members of the Hartlepool Partnership work together to define and deliver the ambitions of the Community Strategy 2002-2015.
- 31 The priority aims of the Community Strategy are wide ranging and embrace the key issues for Hartlepool people. The Council works to these priority aims and there is a very clear link from the Community Strategy through the Council's Corporate Plan to departmental and service plans and staff objectives. Good communications help councillors, staff and partners to understand the Council's objectives and to work together very effectively for their achievement.
- 32 Excellent consultation and engagement with local people and good use of data enable identification of local needs and priorities. The Council's services all have a strong focus on their users and in particular on the needs of the more deprived and disadvantaged communities. Neighbourhood Consultative Forums directly involve local people in service planning and in some decision making. The Council is taking a thorough approach to developing its arrangements for equality and diversity and is making good use of new arrangements to engage directly with minority communities.
- 33 The Mayor and Cabinet provide very effective community leadership, facilitating the achievement of shared aims with partners. Scrutiny committees work well in providing appropriate challenge to the Cabinet and to partners. Some weaknesses in political arrangements, including insufficient delegation on planning and a lack of transparency for the public, partners and Council staff on the function and status of the Administration Group, do not prevent overall political management from operating effectively.
- 34 Officer leadership and management are good. Staff at all levels demonstrate very strong commitment to delivering quality services. Officers work productively across departmental and organisational boundaries and are well supported by training programmes. The Council is using innovative approaches to procurement including long term partnering, joint commissioning, joint tendering, and working with the voluntary sector and other local authorities but it is not fully realising the benefits of strategic procurement or of new ways of working.
- 35 Financial capacity is good and the Council has substantial reserves. The Council uses its budget processes effectively to ensure that priorities are funded. While there is no formal medium term financial strategy, the Council has practical arrangements for financial planning in the medium term. Overall financial capacity is greatly enhanced by the Council's ability to attract significant external funding, which is well managed. Day to day financial management is effective and the Council provides good value for money.
- 36 Good performance management enables the Council and its partners to monitor and drive progress. There is a strong focus on improvement. Councillors and officers are open about performance and take action to improve performance when they need to do so. Performance often ranks among the best in England.



- 37 Outstanding partnership working is achieving improved outcomes almost without exception across national and local priorities. The Council has a strong and thorough approach to regeneration as essential to improving the quality of life in Hartlepool. There is good integration of housing and environmental improvements as key components of the regeneration of neighbourhoods. The economic gap between Hartlepool and the rest of the country has narrowed. Environmental services are good, with effective action by the Council to keep the borough clean while reducing waste and increasing recycling.
- 38 Crime rates overall have risen but there have been reductions in some types of crime and fear of crime has fallen significantly. The Council and its partners have had significant success in narrowing the gap between crime levels in Hartlepool and national averages. The Hartlepool Partnership has made tackling anti-social behaviour a priority in response to local concerns. Good work to reduce drug addiction is bringing positive results. Accident levels are falling. The Council is sustaining and improving community cohesion.
- 39 The Council and its partners are working well together to tackle the health inequalities suffered in Hartlepool. Health is improving and life expectancy is increasing. Premature deaths from heart disease and cancer have reduced and are on track to meet local targets. The prevalence of smoking is still high but has reduced. Teenage pregnancy rates are also reducing. There is good work to improve health through housing and physical activity programmes. However in spite of this progress, the gap between health outcomes in Hartlepool and the rest of the country is widening.
- 40 There is a strong and inclusive strategic approach to services for older people. Older people in Hartlepool are increasingly involved in a wide range of activities and in the development of services. There is a focus on independence and well being. Social care for older people is very good.
- 41 Outcomes for children and young people are good, supported by strong partnership working. Health education and provision are good. Vulnerable children and young people are well safeguarded through effective action by all agencies. Early years and childcare provision are good, and educational attainment continues to improve, but the number not in education, employment or training remains high. Support for school improvement and provision for children with special education needs are particular strengths. Multi-agency work to reduce offending and anti-social behaviour is good.

### **Areas for improvement**

- 42 There are a number of ways in which the Council can further improve the way it works.
- 43 The Council does not have a formal approach to medium term financial planning. While it has a very good framework for performance management, the Council could improve its financial and performance planning by developing and adopting a formal medium term financial strategy, clearly linked to Council objectives and funding streams and to its role in delivering the Community Strategy.

- 44 The Council could further enhance its capacity to deliver its objectives and further stimulate modernisation of the Council's functions by developing a strategic approach to working with the voluntary sector, including funding arrangements, which maximises the sector's potential to improve the quality of life in Hartlepool and to enable these organisations to plan ahead in support of the Council's objectives; and by reviewing its approach to strategic procurement and business process re-engineering to ensure that these produce the maximum gains in terms of outcomes for service users and efficiency.
- 45 The Council has effective political management, but it could further improve this by reviewing delegation arrangements for planning to ensure swift, transparent and efficient decision-making; and by clarifying the status and function of the Administration Group to make it transparent and understandable within and outside the Council.

## Service inspections

### Supporting People

- 46 This inspection report was published in March 2006 and assessed Hartlepool Council as providing a 'poor' no-star programme that has uncertain prospects for improvement.
- 47 During the inspection a number of weaknesses were highlighted, many of which were seen to be significant. These included lack of publicity for services, weaknesses in governance arrangements and lack of strategic direction. In addition, the report highlighted an absence of agreed service review methodology, eligibility or value for money criteria and an incomplete five-year strategy.
- 48 Some strengths of the programme were recognised. These included good arrangements for signposting enquirers, accurate payments being made on time to service providers and success in attracting additional resources to the programme from within and outside the Council.
- 49 The Council produced a response to the inspection in the form of an action plan which has been implemented with some success. A re-inspection is planned, but some evidence of improvement is highlighted within the corporate assessment summary.

### Other Inspectorates

- 50 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. Relationship Managers 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.

**51** The assessment of children's services in Hartlepool has been conducted by Ofsted and other regulators through a joint area review (JAR), carried out in conjunction with the corporate assessment. The main points raised by the JAR were:

- 'The council is performing well overall. Strong political commitment to very effective partnership working has resulted in good outcomes for children and young people. Good levels of safety are maintained and vulnerable groups are generally well supported. There is a satisfactory youth service and the youth offending service is judged as good overall with adequate management. 117 There is exceptional unity of purpose in the authority to ensure that every Hartlepool child matters. Vision and ambitions are set out well in the Children and Young People's Plan with comprehensive priorities reflecting the Every Child Matters agenda. Key priorities include the continuation of impressive improvements in educational attainment, preventive work and inclusion. Planning is consistent and of a high quality, but financial implications are not explicit in plans. There is good value for money overall and very thorough arrangements for performance management. The combined work of all local services in securing each of the ECM outcomes is good.'

**52** The CSCI assessment of adult services highlighted the following:

- This has been a year of significant change, with the successful separation of adult social care from children's services and its integration into a wider Adult and Community Services Department, opening up opportunities for a broader approach to social inclusion.
- Planning continues to be undertaken at local level through neighbourhood action plans, and a Connected Care approach has been introduced in one area, in which residents are involved in shaping the development of low level services.
- Work has been undertaken to strengthen capacity in the voluntary sector and there are close working arrangements with the Primary Care Trust (PCT).
- Assessments have been undertaken more speedily.
- More people were helped to live in their own homes than last year, with very good performance across all service user groups.
- An inspection of services for people with learning disabilities in June 2006 judged that some people were being served well, and there was promising capacity for improvement.'

**53** The BFI assessment of the benefits service concluded that:

- 'Hartlepool Borough Council met 10 of the 12 performance measures where the Department had set a Standard and 64 of the 65 enablers. The council continued to set national and local targets that encouraged improved performance and had comprehensive performance monitoring and reporting systems in place. In addition, 2005/2006 saw the introduction of more mobile assessments in customers' homes so that benefits claims could be processed more quickly. Reported performance for processing new claims was an average of 24 days during 2005/06, a significant improvement over its performance of 40 days during 2004/05. Similarly, reported performance for processing changes of circumstances was 7 days and also demonstrated continuing improvement when compared to its performance of 19 days during 2004/05. In its efforts to reduce fraud and error the council met or exceeded the targets for interventions and visits, and secured 43 sanctions including 5 successful prosecutions during 2005/06. In December 2005 the Benefits Team and Counter Fraud Investigation Team achieved Charter Mark status for excellence in customer service.'

## **Citizens' views**

- 54** Overall compared with 2004, users in 2006 were more satisfied with many aspects of the Council's performance and in particular with crime and leisure related activities. However, satisfaction with waste collection and with recycling has declined and people feel that the Council does not keep them as well informed about its activities as it did in 2004.

## **Other performance work**

### **Partnership working across Teesside: tackling drugs misuse**

- 55** This report was published by the Commission in December 2006. It looked at the way in which a number of agencies are working together, both locally and across Teesside.
- 56** In looking at the work being undertaken in Hartlepool, the report noted that partners are working together effectively and have developed a culture where any partner can bring items to the agenda. Partners are very supportive of each other and there is consistent representation at meetings despite pressures from within partners' own agencies. Partners respond collectively with action plans drawn-up and delivered by operational task groups of the Safer Hartlepool Partnership.

## Financial management and value for money

- 57** As your appointed auditor I have reported separately to the General Purposes Committee acting as those charged with governance on the issues arising from our 2005/06 audit and have provided:
- an unqualified opinion on your accounts;
  - a conclusion on your vfm arrangements to say that these arrangements are adequate; and
  - a report on the Best Value Performance Plan confirming that the Plan has been audited.
- 58** Audit findings are an important component of the CPA framework described above. In particular the Use of Resources score is derived from the assessments made in the following areas.
- Financial Reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
  - Financial management (including how the financial management is integrated with strategy to support council priorities).
  - Financial Standing (including the strength of the Council's financial position).
  - Internal Control (including how effectively the Council maintains proper stewardship and control of its finances).
  - Value for money (including an assessment of how well the Council balances the costs and quality of its services).
- 59** For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

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**Table 3**

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

(Note: 1=lowest, 4=highest)

60 The key issues arising from the audit, as reflected in the above judgements, are as follows.

- Arrangements for reviewing internal control to support the Statement on Internal Control have improved since last year.
- Progress is being made in addressing value for money, balancing service developments and financial savings and supported by some use of benchmarking information.
- The Council's General Fund Balances was £19.53m at 31 March 2006. This includes the Unearmarked General Fund Balances of £5m which is available to meet any general expenditure commitments not budgeted for in year and a considerable proportion of earmarked funds (£7.2m) is earmarked to support the budget over the next three years. A further £3.9m relates to potential expenditure arising from strategic or service changes and another £2m relates to departmental carry forward of under spends. A formal medium-term financial strategy is needed to ensure that the Council can continue to deliver its services and at the same time maintain an appropriate level of reserves.

## Conclusion

- 61** This letter has been discussed and agreed with the Chief Executive. A copy of the letter will be presented at the Cabinet, Scrutiny Co-ordinating Committee and Audit Committee in April and May 2007.
- 62** 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

- 63** This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk), and also on the council's website.

**Steve Nicklin**

**Relationship Manager**

## AUDIT COMMITTEE

17<sup>th</sup> May 2007



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

**Subject:** AUDIT COMMITTEE ANNUAL REVIEW

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### 1. PURPOSE OF REPORT

- 1.1 To inform Members of the work undertaken by the Audit Committee during the municipal year in order for it to meet the requirements of its role and responsibilities as laid down by Council.

### 2. BACKGROUND

- 2.1 The remit of the Audit Committee as agreed at Council on the 4.11.04 is to:

- Promote the independent internal audit function and raise awareness of internal control, reviewing controls and financial operations and developing an anti-fraud culture.
- Focussing and monitoring the Council's audit resources by reviewing the plans of the external auditor and the internal audit team to ensure that audit work is coordinated.
- Monitoring audit performance by including reporting schedules and action on recommendations.

- 2.2 Audit Committees are seen as vital components in the arrangements Councils have in place to ensure that good governance practices and procedures are embedded within Council wide arrangements. This is reflected in the Use of Resources element of the CPA inspection process that states:  
"The Council can demonstrate that it is effectively delivering the core functions of an audit committee, as identified in the CIPFA guidance; that it provides challenge to the Executive when required and provides for effective leadership on governance, financial reporting and audit issues."



### 3. AUDIT COMMITTEE ACTIVITY

- 3.1 In order to fulfil the requirement mentioned in paragraph 2.2, the Audit Committee has undertaken the following activities within the municipal year:
- 3.2 *Reviewed the Internal Audit Outcome Report 2005/06* – This provides accountability for internal audit delivery and performance and allowed 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).
- 3.3 *Reviewed and approved the 2005/06 Statement on Internal Control* – This allowed members to review the council's approach to meeting the implications of the Accounts and Audit Regulations (England) 2003 requirement; that the Council publish a Statement on Internal Control with the Financial Statements, and the action undertaken by the Council to meet its obligations within the scope of the Regulations.
- 3.4 *Undertook Refresher Training Regarding Internal Audit and the Function and Role of an Audit Committee* – This updated Members of the direction of Internal Audit activity and the potential role and objectives of the Audit Committee in monitoring the performance of the Internal Audit function.
- 3.5 *Internal Audit Plan 2006/07 Update* – Four of these reports were reviewed during the year which allowed members to be kept up to date with the ongoing progress of the Internal Audit section in completing its annual audit plan. These reports allowed members to review the outcomes of all completed internal audit reports and comment upon any areas of concern.
- 3.6 *Considered the District Auditors 2005/06 Annual Governance Report* – This allowed members to review the conclusions of the work of the Audit Commission.
- 3.7 *Review of Financial Procedure Rules* – Two reports were reviewed during the year. The first allowed members to comment on the proposed strategy to implement a phased approach to the review of FPRs in order to meet the requirements identified when completing the Statement on Internal Control (SIC) for 2005/06. The second sought comments on the changes proposed to FPRs.
- 3.8 *Statement on Internal Control Update 06/07* – This updated Members on the proposed process to complete the Statement on Internal Control (SIC) for 2006/07 and provided refresher training on the purpose of the SIC and the Audit Committees role in its production.

- 3.9 *Reviewed Audit Commission Reports - Data Quality and Your Business at Risk* – This allowed members to review the work of the Audit Commission in the two areas of operation covered.
- 3.10 *Consider the 2007/08 Internal Audit Plan* – This report informed Members of the direction of Internal Audit activity and sought approval of the annual operational Internal Audit Plan for 2007/08. It also provided accountability for internal audit services allowing 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).
- 3.11 *Reviewed Audit Commission Use of Resources Report* – The committee reviewed the Audit Commission Use of Resources assessment to evaluate how well councils manage and use their financial resources.
- 3.12 *Reviewed and Approved the Internal Audit Charter* – This allowed members 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.
- 3.13 *Reviewed and Approved the Internal Audit Strategy* – This allowed members to ensure that the Internal Audit service will be delivered and developed in accordance with its charter and is linked to organisational objectives and priorities
- 3.14 The sum total of this information, training, analysis and reviews allows the Audit Committee to fulfil its remit and also satisfies the Council's obligation under Regulation 6 of the Accounts and Audit Regulations 2003 as amended 2006, that the relevant body conduct an annual review of its system of internal audit.

#### **4. RECOMMENDATIONS**

- 4.1 That the work undertaken by the Audit Committee in 2006/07 is reported to and endorsed by the Council.



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

**Subject:** INTERNAL AUDIT OUTCOME REPORT  
2006/07

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**1. PURPOSE OF REPORT**

To inform Members of the Outcomes of Internal Audit work covering the period April 2006 to March 2007.

**2. SUMMARY OF CONTENTS**

This Report provides accountability for internal audit delivery and performance 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 as amended 2006 and CIPFA Code of Practice for Internal Audit in Local Government in the UK (2006).

**3. FINANCIAL IMPLICATIONS**

None.

**4. RECOMMENDATIONS**

That Members note the contents of the report.

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

**Subject:** INTERNAL AUDIT OUTCOME REPORT 2006/07

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**1. PURPOSE OF REPORT**

To inform members of the outcomes of audit work covering the period April 2006 to March 2007.

**2. BACKGROUND**

- 2.1 This report provides accountability for Internal Audit delivery and performance and allows Members to monitor the application of the delegated authority for ensuring an effective and satisfactory internal audit function.
- 2.2 Information for Members on the standards of financial administration and management arrangements operating within the Authority is detailed in this report, together with a progress report on the extent of implementation of audit recommendations. The consideration and effective implementation of audit recommendations is fundamental in ensuring effective financial stewardship and robust financial systems, controls and procedures.
- 2.3 This report also details the performance of Internal Audit in 2006/07 on a range of key performance indicators.
- 2.4 Hartlepool Borough Council also provides the audit services to the Cleveland Fire Authority. In addition to the audits detailed in Appendix A, Internal Audit completed 14 major systems and probity reviews for the CFA during 2006/07.

**3. AUDIT INPUTS 2006/07**

- 3.1 There were 1697 audit days allocated at 1.04.06 to planned and responsive activities during 2006/07.
- 3.2 Staffing resources were lower than anticipated in the plan because of maternity leave. A contingency is in place to address such shortfalls by use of overtime and/or agency staff but prudent management of the in-house audit resources and contingency days avoided the requirement for external assistance and the audit plan was delivered in line with the key performance indicators.

Careful adjustment and revision to the audit plan ensured that all high-risk functions were reviewed and a balanced program of work covering all Council departments was achieved for 2006/07.

#### **4 OUTCOMES**

- 4.1. Appendix A schedules all the planned audits completed for 2006/07. Only a minority of systems and arrangements reviewed required improvement in Hartlepool.
- 4.2. Follow up work has been carried out, which has revealed that management has taken action, and improvements to controls, processes and procedures have been made.
- 4.3. From the work undertaken during the year 2006/07, the Head of Audit and Governance has reached the opinion that key systems are operating soundly and that there is no fundamental breakdown in controls resulting in material discrepancy. Satisfactory arrangements were implemented to ensure the effective, efficient and economic operation of Hartlepool Borough Council's financial affairs.
- 4.4. No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance; this statement is intended to provide reasonable assurance. These risks are reflected in the audit plan and are the subject of separate reports issued during the course of 2006/07.

#### **5. FOLLOW UP**

- 5.1. Audit reports are issued to auditees following a discussion of any audit findings. Each report includes an Action Plan where appropriate, recording:
  - Any recommended revisions to systems, procedures and operating arrangements;
  - The response of the auditees;
  - A timescale for introducing the recommended improvements.
- 5.2. In accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the UK, a system of follow up of audit recommendations is in operation to monitor what action has been taken by management in response to audit work. During 2006/07, all audits completed, that had reached the date when a follow up was due, have been the subject of follow up activity.

This position is positive and indicates a commitment by management to further improve controls and financial systems throughout the Authority. Further follow up work is planned in 2007/08 for those recommendations not yet actioned.

## 6 MONITORING INTERNAL AUDIT PERFORMANCE

- 6.1 Internal Audit is committed to the delivery of a quality service, which accords with the CIPFA Code of Practice for Internal Audit in Local Government in the UK, and to being responsive to the needs of service departments. In common with other central service providers, a number of core performance indicators for Internal Audit Services have been determined for 2006/07. Performance against these targets is detailed below :

### Internal Audit Performance Indicators

Indicator	Target Set for 2006/07	Actual Performance 2006/07
Completion of High Risk Audits provides assurance that financial procedures are operating effectively and has direct impact on CPA result.	90%	92%
In addition to the managing auditor reviews, quality reviews of working paper files and evidence by the Head of Audit and Governance to ensure compliance with the standards laid down in Codes of Practice and adopted in the Internal Audit Manual.	10%	10%
Percentage of Quality Questionnaires returned.	75%	48%
Results of Quality Questionnaires - Percentage "good or very good"	75%	100%
Percentage of Audit Reports issued within 10 working days of audit completion	87.5%	100%
Percentage of Audit Recommendations followed up within 6 months of completion of the audit	100%	100%
Annual Report to Members by 30 <sup>th</sup> June following year-end.	30.06.07	17.05.07

## 7. RECOMMENDATION

- 7.1 That Members note the contents of the report.

## APPENDIX A

### **Summary of Internal Audit Planned Work completed for 2006/07**

#### **Fundamental Systems**

Payroll System Monthly Paid  
Payroll System Weekly Paid  
Budgetary Control  
Creditor System  
Council Tax System  
Debtors  
Main Accounting System  
National Non Domestic Rates System  
Housing & Council Tax Benefits System  
Procurement  
Loans & Investments  
Cash/Bank System

#### **Governance Issues**

Richard Report  
Data Protection Act  
Fraud Awareness  
Freedom of Information Act  
Public Interest Disclosure Act  
Proceeds of Crime Act

#### **Other Systems**

Fleet Management  
National Fraud Initiative  
Health and Safety  
Training  
VAT

#### **Partnerships**

Hartlepool Partnership

#### **Annual Audits**

Sure Start Central

**Two Yearly Audits**

Brierton Secondary School  
Car Parks Income  
Catering  
Contracts & Commissioning  
Direct Payments  
Dyke House Secondary School  
Emergency Planning  
English Martyrs Secondary School  
Home Care  
Housing Aid & Asylum Seekers  
Manor College Of Technology  
Members Allowances  
Millhouse & Eldon Grove Centres  
Nursing & Residential Accommodation Charges  
Public Health Income  
Springwell Special School  
St. Hilda's  
Sure Start South

**Three Yearly Audits**

Abandoned Vehicles  
Book Fund  
Building & Development Control Income  
Cemeteries & Crematoriums  
Central Printing  
Clavering Primary School  
Community Grants  
Court Of Protection  
Education Development Centre  
Elwick C of E Primary School  
Fens Primary School  
Golden Flatts Primary School  
Hackney Carriages  
Hart Primary School  
Holy Trinity C of E Primary School  
Owton Manor Primary School  
Registrars  
Rift House Primary School  
St. Josephs Primary School



## **AUDIT COMMITTEE**

**17<sup>th</sup> May 2007**



**Report of:** Chief Financial Officer

**Subject:** STATEMENT ON INTERNAL CONTROL  
2006/07

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

- 1.1 To provide details of the implications to the Council of the Accounts and Audit Regulations (England) 2003 as amended 2006 requirement; that the Council publish a Statement on Internal Control with the Statement of Accounts and associated financial statements, and the action undertaken by the Council to meet its obligations within the scope of the Regulations.
- 1.2 To provide a copy of the 2006/07 Statement on Internal Control for your information and approval (Attached as Appendix A).

### **2. SUMMARY OF CONTENTS**

The report provides a background to the purpose of the Statement on Internal Control, the obligations of the Council arising from the 2003 Regulations as amended 2006, and the steps that have been taken by the Council to meet those obligations. The Statement on Internal Control will form part of the Council's 2006/07 Statement of Accounts.

### **3. FINANCIAL IMPLICATIONS**

None.

### **4. RECOMMENDATIONS**

That Members review and approve the 2006/07 Statement on Internal Control.

**Report of:** Chief Financial Officer

**Subject:** Statement on Internal Control 2006/07

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**1. PURPOSE OF REPORT**

1.1 To inform Members of the implications to the Council of the Accounts and Audit Regulations (England) 2003 as amended 2006 requirement; that the Council publish a Statement on Internal Control with the Financial Statements, and the action undertaken by the Council to meet its obligations within the scope of the Regulations.

1.2 The report considers the following areas:

- Why the Council needs a SIC,
- Who is responsible,
- How the SIC was produced.

**2. Why**

2.1 To clearly demonstrate to stakeholders, that the Council has adequate arrangements in place to ensure that it effectively manages and controls its financial and operational responsibilities in accordance with acknowledged best practice. Paragraphs 2.2 to 2.4 detail positive benefits to the Council of achieving this end.

2.2 Statutory Requirement

The Accounts and Audit Regulations require that “the Council ensures that its financial management is adequate and effective and that there is a sound system of internal control which effectively facilitates its functions and which includes arrangements for the management of risk.

The Council shall conduct a review at least once a year of the effectiveness of its internal controls and shall include a statement on internal control with any statement of accounts it is obliged to publish”.

2.3 Good Governance

Production and publication of a SIC are the final stages of an ongoing review of internal control and are not activities which can be planned and viewed in isolation. Compilation of a SIC involved the Council in:

- Reviewing the adequacy of its governance arrangements
- Knowing where it needs to improve those arrangements, and

- Communicating to users and stakeholders how better governance leads to better quality public services.

## 2.4 Comprehensive Performance Assessment

Assurance derived from the monitoring of processes, including risk management, provides evidence, which allows assessors to form conclusions on the efficiency and effectiveness of the Council's operations. The SIC provides assurance that the Council has a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for managing risk.

## 3 Who

### 3.1 Corporate Responsibility

The Council's system of internal control must reflect its overall control environment, not just financial, which encompasses its organisational structure. Internal control is a corporate responsibility and the scope of internal control accordingly spans the whole range of the Council's activities and includes controls designed to ensure:

- The Council's policies are put into practice and its values are met,
- Laws and regulations are complied with,
- Required processes are adhered to,
- Financial statements and other information are accurate and reliable,
- Human, financial and other resources are managed efficiently and effectively, and
- High quality services are delivered efficiently and effectively.

### 3.2 Contributors to the SIC

- Cabinet
- Portfolio Holders
- Audit Committee
- CEMT
- CMT
- Risk Management Group
- CFO
- Monitoring Officer
- External Auditors and other Review Bodies
- Internal Audit and
- Management.

## 4 How

- ### 4.1
- Having established a system of internal control, it is then necessary to consider which of these controls are key in mitigating against significant risk. By obtaining assurance on the effective operation of

these key controls the Council is able to conclude on the effectiveness of the systems and identify where improvement is needed.

The review of internal control and SIC assurance gathering included:

- Establishing obligations and objectives,
- Identifying principal risks,
- Identifying and evaluating key controls to manage risks,
- Obtaining assurances on the effectiveness of controls,
- Evaluating assurances,
- Action planning to correct issues and continuously improve.

4.2 In practice the Council already had most of the necessary internal controls in place, what was required was to incorporate them into a framework for producing a SIC that met the requirements of the Regulations. In order to do this the Council has:

- Identified roles and responsibilities,
- Provided training,
- Gone through a process of establishing objectives, identifying risks and recording controls,
- Gathered and retained evidence for inspection,
- Drafted the SIC.

## **5. Recommendations**

That Members review and approve the attached 2006/07 Statement on Internal Control.

## Appendix A

## **HARTLEPOOL BOROUGH COUNCIL** **STATEMENT ON INTERNAL CONTROL**

### **1 Scope of Responsibility**

- 1.1 Hartlepool Borough Council is responsible for ensuring that:
- Its business is conducted in accordance with the law and proper standards,
  - Public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 1.2 The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.3 In discharging these overall responsibilities, Hartlepool Borough Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

### **2 The Purpose of the System of Internal Control**

- 2.1 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable assurance and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.2 In order to facilitate the completion of the Statement, an officer working group has been formed and a programme of work developed. To ensure that the Statement has been given sufficient corporate priority and profile, the working group included both the Chief Financial Officer and the Assistant Chief Executive. As part of the process presentations have been made to departmental management teams and regular updates given to both the Chief Executives Management Team and Corporate Management Team (CMT).

### 3 **Significant Internal Control Issues Update from 2005/06 Statement**

- 3.1 Progress has been made over the course of 2006/07 to address weakness in the system of internal control identified as part of the 2005/06 process. The table below identifies action that has been taken to mitigate the areas of concern raised.

<b>Issue Raised</b>	<b>Action Undertaken</b>
Disaster Recovery/Business Continuity	A revised strategy was determined and reported to CMT on the 23 <sup>rd</sup> October 2006 with the principles agreed for the development of the Business Continuity Plan. Service identification and classification has been achieved.
Partnership Protocols	Scoping exercise undertaken and reported to CMT. Framework implementation.
Adoption of a Code of Corporate Governance	Await outcome of CIPFA/SOLACE Code of Corporate Governance consultation.

### 4 **The Internal Control Environment**

- 4.1 The key elements of the Council's internal control environment are as follows:

Hartlepool Borough Council has adopted a constitution, which sets out how the Council operates, how decisions are made, the procedures that are followed to ensure that these decisions are efficient and transparent, and sets out the terms of reference for the Portfolio and Committee structure. The constitution was developed in accordance with the Local Government Act 2000 and it sets out the delegated responsibilities to Key Officers such as the Monitoring Officer and Section 151 Officer.

- 4.2 Effective procedures to identify, evaluate, communicate, implement, comply with and monitor legislative change exist and are used. Human Resources (HR) policies identify suitable recruitment methods and ensure appropriate job descriptions exist for legal staff. Induction training is arranged by HR for all staff, departments have responsibility to provide induction training specific to their departmental needs. Legal Division procedures exist for monitoring new legislation, advising relevant departments, and members where appropriate. Legal personnel participate in training events.
- 4.3 Portfolio and Committee terms of reference are included in the constitution. A procedure is in place to ensure that all Portfolio and

Committee agendas, minutes and supporting material are available to all staff on the Council's intranet, and to the public on the Council's Internet site.

- 4.4 The constitution contains financial and contract procedure rules, and code of conduct for Members, which have been formally approved. Financial procedure rules have been updated and agreed by Council and contract procedure rules have also been updated to take into account new procurement procedures. The Authority has adopted the CIPFA Code on Treasury Management and complies with the Prudential Code. The constitution is available to all employees on the intranet and hard copy and to the public on the Internet. A register of gifts and hospitality is maintained for Members and Officers.
- 4.5 The full cabinet and a range of Member committees regularly meet to review specific policy areas, to consider plans, reports and progress of the Authority.
- 4.6 HR has drawn up policies to ensure suitably qualified employees are employed in key areas, and supporting terms and conditions of employment for all employees cover all aspects of good employment. Induction courses for key new officers and all new members incorporate suitable training on corporate governance issues according to responsibilities and there is a general staff awareness programme in place.
- 4.7 A Health and Safety Policy has been approved and published and a Communication Strategy implemented to ensure general awareness.
- 4.8 The Authority has adopted the Community Strategy aims as its own corporate objectives. The development of the Community Strategy by the Local Strategic Partnership followed an extensive consultation process. Public priorities were established and these are a key element of the budget setting process. The Local Area Agreement (LAA) (signed on 23/03/06) further develops these arrangements and is the action plan for achieving the community strategy aims. LAA outcomes relating to the Council have been integrated into the council's corporate plan, service plans and performance management arrangements to enhance management and political accountability.
- 4.9 CMT has defined what it considers to be a partnership and an assurance framework is being developed to ensure that adequate governance arrangements are in place that are proportional to the responsibilities and risks of each partnership. The Authority has an ongoing programme of monitoring and reviewing arrangements in place in respect of the operation of its key partnerships. A framework of reporting by exception to Corporate Management Team operates and Internal Audit provides annual audit coverage of partnership arrangements. The Audit Committee has highlighted partnerships as a key area of interest and the Authority's control framework will be

developed further and the committee regularly updated on progress. As the areas of Corporate Governance and Partnerships evolve, further changes to internal controls are envisaged to meet any future requirements under the revised Code of Corporate Governance and the Government's white paper on the role and function of Local Government. The development of controls around corporate governance arrangements is a transitional, ongoing process that will build upon existing procedures.

- 4.10 All departments produce departmental and service plans using a corporate framework to ensure that they reflect the corporate objectives. Departments also complete extensive consultation with service users, forums, partners and Viewpoint 1000 surveys. The feedback from these exercises is used to link service and departmental objectives to both the planning process for service delivery and to the corporate objectives. In order to further embed the process of risk management, control identification and the production of the SIC into the culture and management processes at the council, risks to meeting departmental objectives and the controls to mitigate those risks are now recorded as part of the corporate service planning process at a departmental level. This has brought together service planning, risk management and control identification which has enabled a much more focussed and joined up approach to the use of management information and the production of the SIC. Progress against the Corporate Plan and departmental plans is reported to CMT, Cabinet and the Portfolio Holders on a quarterly basis.
- 4.11 A corporate performance management framework approved by CMT and the Cabinet is operating across the Council. The framework sets out the process and timetable for reporting on performance. A Quality assurance / PI collection framework is in place with Internal Audit conducting an annual review of PIs assessed as high risk. The Performance Management database includes information relating to departmental and officer responsibility for the collation of data, target setting and addressing performance issues.
- 4.12 Key performance indicators are identified in the corporate and departmental plans. Regular reports are presented to members on the delivery of performance targets and these include national and local comparisons.
- 4.13 Key policies such as the Corporate Complaints Procedure, Proceeds of Crime (Money Laundering), Whistle blowing Policy and Counter Fraud and Corruption Policy have been developed and approved for use across the whole Authority. The policies are available to employees via the intranet. Reports are made to portfolio holders every six months summarising, for example, the complaints dealt with and the outcome. The Authority is a member of the National Anti Fraud Network and also takes part in regular National Fraud Initiative reviews.



- 4.14 The Council agreed a Risk Management Strategy in December 2004 and this has been improved on a regular basis since, the latest updated version being agreed by Cabinet in January 2006. The Strategy is available to all staff via the intranet. Key staff have undergone appropriate training and departmental risk champions lead on communicating the strategy to all relevant staff in their departments.
- 4.15 An annual review of strategy has been completed and approved by Corporate Risk Management Group (CRMG). The Risk Management annual work programme was approved by CRMG in March 07 and incorporated within service plan (Chief Execs). A CMT/Cabinet annual review of the Strategic Risk Register (SRR) was carried out in June 06. A Members training event was held on the 7 September 05 to raise the profile of Risk Management with Councilors as part of the decision-making process.
- 4.16 There is corporate support at senior management level for development of the Risk Management database with risk assessment procedures published and training given to officers (June 2005).
- 4.17 Planned control measures in SRR/DRR are in Service Plans, linked as part of business planning for Departments as described in paragraph 4.10. The Performance Management Portfolio Holder is Hartlepool Borough Councils risk 'champion' and was involved in delivery of training to other Members. Each department also has a risk co-ordinator.  
Risks and control measures relating to corporate and departmental plans are considered as part of the preparation of the Statement on Internal Control.
- 4.18 A database has been established to hold the departmental, corporate and strategic risk registers. The database automatically notifies responsible officers of risks that need to be reviewed and progress is monitored on a quarterly basis by the CRMG, who then report to CMT and Cabinet. Departments may use a central funding pot for risk management to assist in the financing of risk mitigation.
- 4.19 The Council has long-standing, nationally and regionally recognised emergency planning arrangements through the Cleveland Emergency Planning Unit (EPU). The Council's Emergency Management Response Team (EMRT) meets monthly and exercises at least every 6 months.
- 4.20 Departmental business continuity plans have been developed and specific property and flu pandemic plans are in place. ICT resilience has been improved by remote access to Email and calendars and upgrading the UPS system.

- 4.21 Flu pandemic planning has identified critical services particularly in respect of vulnerable people, with alternative service provision arrangements identified as part of that process.
- 4.22 The Business Continuity Group meets on a quarterly basis. A revised strategy was reported to CMT on the 23<sup>rd</sup> October 2006. The principles for the development of the Business Continuity Plan have been agreed. Each department has a lead officer responsible for business continuity and the team reports to the CRMG. All senior managers have been briefed about business continuity.
- 4.23 All departments completed an annual review of diversity impact needs requirement assessments and identified steps to further improve access to services and these have been incorporated into service plans. This is part of a corporately agreed approach to mainstream diversity issues within the council and implement the Equality Standard. All departments completed an annual review of diversity impact needs requirement assessments and identified steps to further improve access to services and these have been incorporated into service plans. This is part of a corporately agreed approach to mainstream diversity issues within the council and implement the Equality Standard. Briefings for managers in all departments have been completed and the corporate Diversity Steering Group and departmental diversity groups meet regularly to progress diversity matters. The Council invited a consultant from DIA LOG (part of the I&DeA) to assess its progress through the Equality Standard for Local Government. The findings were reported to the Performance Management Portfolio Holder on 26 March 2007 and an action plan is now being implemented.
- 4.24 Internal Audit reports on a regular basis to the Audit Committee on the effectiveness of the organisation's system of internal control. Recommendations for improvement are also made and reported on. Internal Audits performance is measured against standards agreed by management and Members. Internal Audit reporting arrangements have been formalised and strengthened as part of the review of financial procedure rules.
- 4.25 Other review bodies external to the Authority also make regular reports on efficiency, effectiveness and compliance with regulations. These reviews include major inspections by the Commission for Social Care, Department for Further Education and Skills, Ofsted and the Planning Inspectorate of the relevant section of the Authority. The Audit Commission has also undertaken a Comprehensive Performance Assessment and the Council has been assessed as 'excellent', the highest possible ranking. The results of these reviews are reflected in the Council's own development and improvement plans. Some services within the Authority have been accredited by Investors in People and Chartermark.

## 5 **Review of Effectiveness**

- 5.1 The Council has the responsibility for conducting, at least annually, a review of the system of internal control. The review of the effectiveness of internal control is informed by the work of Internal Audit and Senior Managers who have responsibility for the development and maintenance of the internal control environment. The review is also informed by the reports issued by external audit and other review agencies and inspectorates.
- 5.2 The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes:
- Corporate Management Team agreed process for the review of the internal control environment. The risk inherent in meeting departmental objectives and the controls to mitigate those risks are now recorded as part of the corporate service planning process at a departmental level. This has brought together risk management, control identification and the process for compiling the evidence needed to produce the SIC. This enables managers to provide documented evidence regarding the controls within their service units as part of the service planning process. The controls in place are designed to negate the identified and recorded risks of not achieving service, departmental or corporate objectives. In order to ensure adequate controls are in place the procedures, processes and management arrangements in place to mitigate identified risks and the officers responsible for them are also documented. Gaps in controls can be addressed as part of the regular reviews of departmental risks and control measures.
  - Internal Audit – the Council has the responsibility for maintaining and reviewing the system of internal control and reviewing annually Internal Audit. In practice, the Council, and its External Auditors, takes assurance from the work of Internal Audit. In fulfilling this responsibility:
    - Internal Audit operates in accordance with CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.
    - Internal Audit reports to the Section 151 Officer and Audit Committee.
    - The Head of Audit and Governance provides an independent opinion on the adequacy and effectiveness of the system of internal control, quarterly update reports and an annual internal audit performance report to the audit committee.
    - Internal audit plans are formulated from an approved risk assessment package.

- External Audit – in their annual audit letter, comment on their overall assessment of the Council. It draws on the findings and conclusions from the audit of the Council and from the Corporate Assessment and inspections that have been undertaken.
- Other review and assurance mechanisms: for example, Department for Further Education and Skills, Commission for Social Care, Investors in People, Chartermark.
- In the Comprehensive Performance Assessment by the Audit Commission, the overall report placed the Council in the 'excellent' corporate assessment category.

## 6 **Significant Internal Control Issues**

6.1 The following significant internal control issues have been identified:

No	Issue	Action	Timescale	Responsible Officer
1	Disaster Recovery/ Business Continuity Arrangements	- Review Building Risk plan and finalise for distribution. Completed People Risk pro-forma to be considered.	July 2007	M Ward
		- Review People Risk plan and finalise for distribution. Completed Suppliers Risk pro-forma to be considered.	Oct 2007	M Ward
		- Review Suppliers Risk Plan and finalise for distribution. Completed ICT Risk pro-forma to be considered.	Jan 2008	M Ward
		- Review ICT Risk Plan and finalise for distribution. Review Programme and Set new Milestones	April 2008	M Ward

2	Partnership Protocols	- Further develop assurance framework. - Continue the rolling review of key partnerships to ensure that adequate corporate governance arrangements are in place that are proportional to the responsibilities and risks of each partnership.	Sept 2007  April 2008	M Ward  M Ward
3	Adoption of a Code of Corporate Governance	Await outcome of CIPFA/SOLACE Code of Corporate Governance consultation.	Publication of guidance	T Brown

We have been advised on the implications of the result of the review of the effectiveness of the system of internal control by the Authority and a plan to address weakness and ensure continuous improvement of the systems is in place.

CHIEF EXECUTIVE:  
DATE:

MAYOR:  
DATE:

MONITORING OFFICER:  
DATE:

CHIEF FINANCIAL OFFICER (SECTION 151 OFFICER):  
DATE: