



NOTICE OF MEETING

| | |
|--------------------------------|--------------------------------------------------------------------------------------------------------------|
| Meeting: | Audit Committee |
| Date and Time: | Tuesday, 26 March 2013 at 7.00 pm |
| Place: | Committee Room 1, Civic Offices, Fleet |
| Telephone Enquiries to: | Gill Chapman, 01252 774141 gill.chapman@hart.gov.uk |
| Members: | Axam, Bailey , Barrell, Collett, Gani, Neighbour (Chairman), Simmons |

G Bonner
Chief Executive

CIVIC OFFICES, HARLINGTON WAY
FLEET, HAMPSHIRE GU51 4AE

AGENDA

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AND BRAILLE ON REQUEST**

1 MINUTES OF THE PREVIOUS MEETING

The Minutes of the meeting held on 4 December 2012 are attached to be confirmed and signed as a correct record. **Paper A**

2 APOLOGIES FOR ABSENCE

3 CHAIRMAN'S ANNOUNCEMENTS

4 DECLARATIONS OF INTEREST

To declare disclosable pecuniary, and any other, interests.

5 EXTERNAL AUDIT PLAN 2012/13

To inform the Audit Committee of the work that the Council's External Auditors Ernst and Young plan to carry out to complete the audit of the Council's financial statements for 2012/13. **Paper B**

RECOMMENDATION

That the report be noted.

6 EXTERNAL GRANTS CERTIFICATION REPORT 2011/12

To inform the Audit Committee of the work that the Council's External Auditors Ernst and Young have carried out to confirm that grant claims submitted by the council during 2011/12 were fairly stated. **Paper C**

RECOMMENDATION

That the report be noted.

7 INTERNAL AUDIT PROGRESS REPORT: Q4 JANUARY 2013 – MARCH 2013

To advise the Committee of work completed by Internal Audit between January 2013 and March 2013. **Paper D**

RECOMMENDATION

That the Internal Audit work carried out between January 2013 and March 2013 be noted.

8 INTERNAL AUDIT PLAN 2013/14

To advise the Committee on the content of the Internal Audit plan for 2013/14. **Paper E**

RECOMMENDATION

That the committee approves the Internal Audit Plan for 2013/14

9 STRATEGIC AND OPERATIONAL RISK REGISTERS UPDATE (MARCH 2013)

To update the committee on the contents of the Council's Strategic and Operational Risk Registers. **Paper F**

RECOMMENDATION

That the report be noted.

Date of Despatch: 19 March 2013

AUDIT COMMITTEE

DATE OF MEETING: 26 MARCH 2013

TITLE OF REPORT: EXTERNAL AUDIT PLAN 2012/13

Report of: Head of Finance

Cabinet member: Councillor Ken Crookes, Leader

1 PURPOSE OF REPORT

1.1 To inform the Audit Committee of the work that the Council's External Auditors Ernst and Young plan to carry out to complete the audit of the Council's financial statements for 2012/13.

2 OFFICER RECOMMENDATION

That the report be noted.

3 BACKGROUND

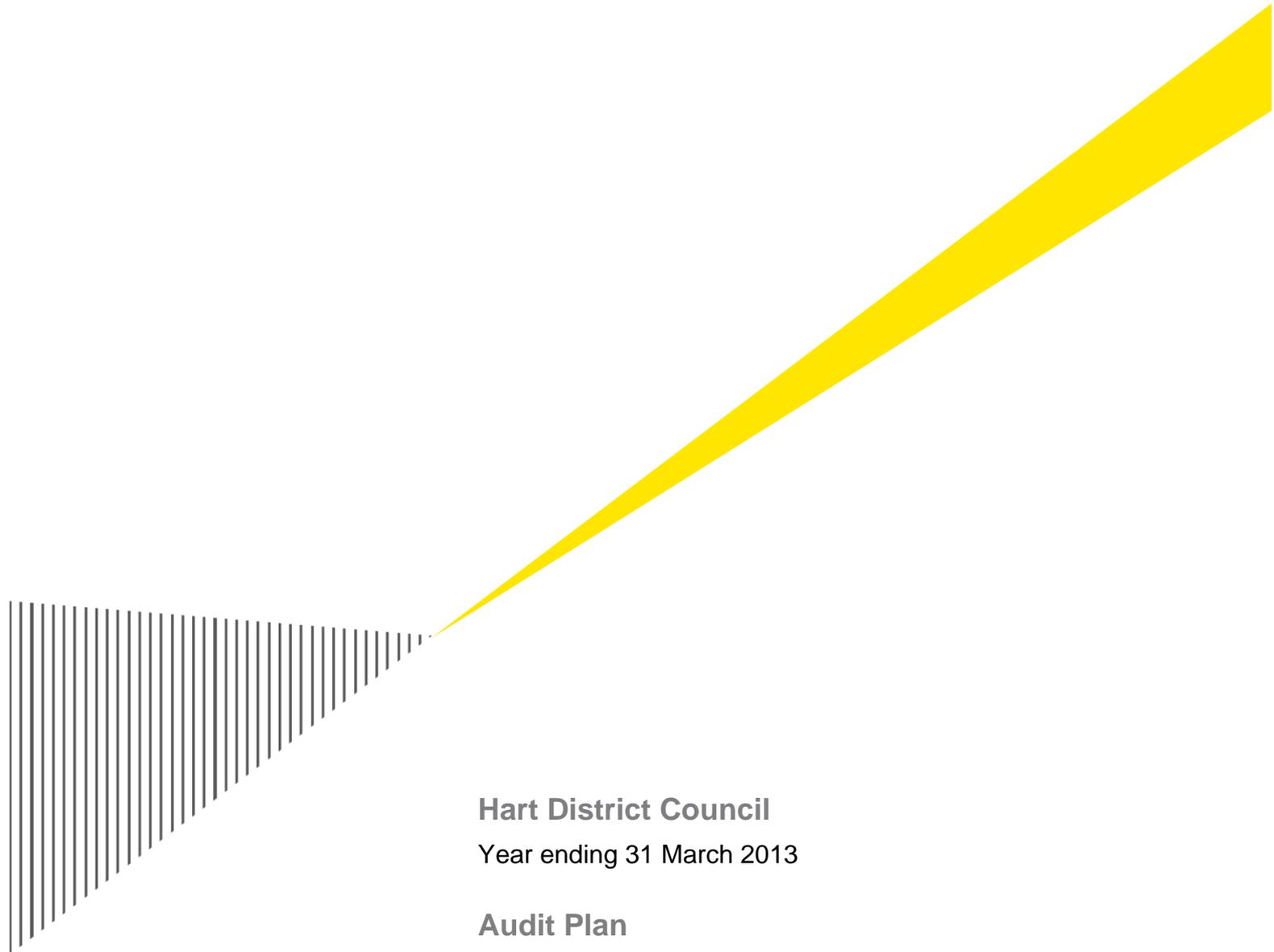
3.1 The Council's External Audit arrangements are now provided by Ernst and Young, part of their role is to ensure that the council is accountable to the community for financial management and governance. The External Audit Plan (Appendix I) provides a summary of the work that Ernst and Young will carry out during the year to enable them to form an opinion on the following:

- That the Statements of Accounts give a true and fair view of the council's financial position as at 31st March 2013.
- That the council can demonstrate that it has arrangements to secure value for money.
- That the council has effective governance arrangements in place.

4 FINANCIAL IMPLICATIONS

4.1 There are no financial implications arising directly from this report

Contact Details: Head of Finance, Extension 4207, tony.higgins@hart.gov.uk



Hart District Council
Year ending 31 March 2013

Audit Plan

March 2013

Members of the Audit Committee
Hart District Council
Civic Offices
Harlington Way
Fleet
Hampshire
GU51 4AE

March 2013

Dear Members

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. The purpose of this report is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2012/13 audit, in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Panel's service expectations.

This report summarises our assessment of the key risks which drive the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this report with you in March 2013 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Paul King
For and behalf of Ernst & Young LLP
Enc

cc

Tony Higgins, Head of Finance

Malcolm Haines, Manager

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1. Overview

Context of the audit

This audit plan covers the work that we plan to perform in order to provide you with:

- ▶ Our audit opinion on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2013 and of the income and expenditure for the year then ended; and
- ▶ A statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office ('NAO'), to the extent and in the form required by them, on your Whole of Government Accounts (WGA) return.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter. And by focusing on the areas that matter, our feedback is more likely to be relevant to the Council.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

We have not identified any significant risks at the Council for 2012/13 although we will update management and the Audit Committee should this situation change. In parts 2 and 3 of this report we provide more detail on the areas upon which the audit will focus, and outline our plans to address the associated risks. We will provide the Audit Committee with an update on the results of our work in these areas in our report to those charged with governance scheduled for September 2013.

Our process and strategy

Financial Statement Audit

We will apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. We carry out an initial assessment of materiality using the financial statements for 2011/12 but will update this when we receive the draft and final financial statements. Our audit is designed to identify errors above materiality.

We aim to rely on the Council's internal controls in key processes to the fullest extent allowed by auditing standards. We identify the controls we consider important. Where control failures are identified we look for alternative assurance which may involve additional audit work. We report significant deficiencies in internal control to the Audit Committee or its successor.

To the fullest extent permissible by auditing standards, we will seek to place reliance on the work of internal audit wherever possible.

Paul King, is the Ernst & Young Director for the audit. Malcolm Haines is the Manager and Nigel Smith the team leader. All have significant and wide public sector audit experience.

There has been no change to the scope of the audit compared to previous audits.

Arrangements for securing Economy, Efficiency and Effectiveness

We adopt an integrated audit approach such that our work on the financial statement audit feeds into our consideration of the arrangements in place for securing economy, efficiency and effectiveness.

We have not identified any significant risks requiring additional audit work or specific audit procedures and will carry out the assessment with consideration to the following areas:

- sector specific issues (i.e. spending review and finance settlements);
- any value for money issues identified within your annual governance statement (AGS);
- review of the Audit Commission's most recent value for money (VFM) profiles;
- the most significant risks identified within the Council's risk registers;
- any local issues identified from our audit knowledge and experience; and
- any other area relevant to the Council (for example, findings from regulators, claims against the Council, and so on).

2. Financial Statement Risks

We outline below our assessment of the key strategic or operational risks and the financial statement risks facing Council, identified through our knowledge of the entity’s operations and discussion with members and officers.

We have identified no significant risks that require us to undertake any additional specific risk-based work or audit procedures. We have, however, identified one inherent risk that is common across all local government bodies and will be addressed through existing audit procedures

Risk of misstatement due to fraud and error

Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud. Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ Identifying fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understanding the oversight given by those charged with governance of management’s processes over fraud.
- ▶ Consideration of the effectiveness of management’s controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks.

We will consider the results of the National Fraud Initiative and may make reference to it in our reporting to you.

3. Economy, Efficiency & Effectiveness

Our work will focus on:

1. Whether there are proper arrangements in place for securing financial resilience at Council; and
2. Whether there are proper arrangements in place at the Council to secure economy, efficiency and effectiveness in the use of resources.

We have not identified any significant risks in our work so far which includes:

- ▶ Discussions with members and officers;
- ▶ Discussions with internal audit;
- ▶ Reviewing reports and minutes;
- ▶ Reviewing the risk register;
- ▶ Our financial statements audit planning; and
- ▶ Attending the Audit Committee.

We have identified no specific risk-based work we need to undertake. We will continue to monitor the Council's arrangement in the same way through to 31 March 2013 and developments through to the issue of the Auditor's Report in September 2013.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice ('the Code'), dated March 2010, our principle objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code, the Council's:

- i) financial statements; and
- ii) arrangements for securing economy, efficiency and effectiveness in its use of resources.

We issue a two-part audit report covering both of these objectives.

i) Financial Statement Audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We will also review and report to the National Audit Office ('NAO'), to the extent and in the form required by them, on your Whole of Government Accounts return.

ii) Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, to the fullest extent possible we will place reliance on the reported results of the work of other statutory inspectorates in relation to corporate or service performance. In examining the Council's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

- ▶ Arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- ▶ Arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

4.2 Audit process overview

Processes

Our initial assessment of the key processes across the entity has identified the following key processes where we will seek to test key controls, both manual and IT:

- Accounts receivable
- Accounts Payable
- Business rates
- Cash;

- Housing Benefits

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular in respect of journal entries. These tools:

- help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit

As in prior years, we will review internal audit plans and the results of work undertaken. We will reflect the findings from these reports, together with reports from other work completed in the year, in our detailed audit plan, where issues are raised that could impact the year-end financial statements.

Use of experts

We will utilise specialist Ernst & Young resource, as necessary, to help us to form a view on judgments made in the financial statements.

In addition to the key areas of emphasis outlined in section 4, we have to perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline the procedures we will undertake during the course of our audit.

Mandatory procedures required by auditing standards on:

- ▶ Addressing the risk of fraud and error;
- ▶ Significant disclosures included in the financial statements;
- ▶ Entity-wide controls;
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- ▶ Auditor independence.

Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement and the Remuneration Report;
- ▶ Reviewing and reporting on the Whole of Government accounts return, in line with the instructions issued by the NAO; and
- ▶ Reviewing, and where appropriate, examining evidence that is relevant to the Council's corporate performance management and financial management arrangements and reporting on these arrangements.

4.3 Materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

ISA (UK & Ireland) 450 (revised) requires us to record all misstatements identified except those that are “clearly trivial”. We intend to treat misstatements less than £42,006 as clearly trivial. All uncorrected misstatements found above this amount will be presented to you in our year-end report.

4.4 Fees

The Audit Commission has published a scale fee for all authorities. The scale fee is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for the audit of the Council is £70,908.

4.5 Your audit team

The engagement team is led by Paul King, your audit director. Paul is supported by Malcolm Haines who is responsible for the day-to-day direction of audit work, and who is the key point of contact for the Head of Finance.

4.6 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money (VFM) work and the whole of government accounts (WGA); and the deliverables we have agreed to provide to you through the Audit Committee cycle in 2013. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

We will provide a formal report to the Audit Panel in September 2013, incorporating the outputs from the opinion audit and our year-end procedures. From time to time matters may arise that require immediate communication with the Audit Panel and we will discuss them with the Audit Panel Chairman as appropriate.

Following the conclusion of our audit we will prepare an annual audit letter in order to communicate to the Council and external stakeholders, including members of the public, the key issues arising from our work.

| Audit phase | Timetable | Audit Committee timetable | Deliverables |
|-------------------------------------------|-------------------------|---------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| High level planning: | December 2013 | Audit Committee | Audit Fee letter |
| Risk assessment and setting of scopes | March 2013 | Audit Committee | Audit Plan |
| Testing of routine processes and controls | March 2013 | Audit Committee | Interim update |
| Year-end audit | July – September | Audit Committee | Report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources). Audit completion certificate |
| | October | | Annual Audit Letter |



In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

| Required communications | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Planning stage | Final stage |
| <ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. | <ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, the Audit Commission’s Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues. |

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. However we have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective.

5.2.1 Self interest threats

A self interest threat arises when Ernst & Young has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard 4.

At the time of writing we have undertaken no non-audit services, there are no long outstanding fees and there are no other self interest threats.

5.2.2 Self review threats

Self review threats arise when the results of a non-audit service performed by Ernst & Young or others within the Ernst & Young network are reflected in the amounts included or disclosed in the annual accounts. There are no self review threats at the date of this report.

5.2.3 Management threats

Partners and employees of Ernst & Young are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work. There are no management threats at the date of this report.

5.2.4 Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise. There are no other threats at the date of this report.

5.2.5 Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that Ernst & Young is independent and the objectivity and independence of Paul King, your audit engagement director and the audit engagement team have not been compromised

5.3 Other required communications

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to

publish by law. The most recent version of this Report is for the year ended 29 June 2012 and can be found here:

[UK 2012 Transparency Report](#)

Appendix A Fees

A breakdown of our agreed fee is shown below.

| | Planned Fee 2012/13 | Actual Fee 2011/12 |
|--------------------------------------|------------------------|-----------------------|
| | £'000 | £'000 |
| Total Audit Fee – Code work | 70,908 | 106,400 |
| Certification of claims and returns* | 22,550 | 31,829 |
| Total audit fee – Code work | 93,458 | 138,229 |

The fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ We are able to place reliance, as planned, on the work of internal audit;
- ▶ The level of risk in relation to the audit of accounts is consistent with that in the prior year;
- ▶ No significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based;
- ▶ Our accounts opinion and use of resources conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the audited body;
- ▶ The control environment has been effective throughout the period.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with you in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Our fee for the certification of grant claims is based on the indicative scale fee set by the Audit Commission.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the audit committee of audited clients. These are detailed here:

| Required communication | Reference |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|
| <p>Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.</p> | Audit Plan |
| <p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process | Report to those charged with governance |
| <p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant | Report to those charged with governance |
| <p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud | Report to those charged with governance |
| <p>Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity | Report to those charged with governance |
| <p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures | Report to those charged with governance |
| <p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of | Report to those charged with governance |
| <p>Independence Communication of all significant facts and matters that bear on Ernst & Young's</p> | Audit Plan |
| <p>Objectivity and independence</p> | Report to those charged with |

| Required communication | Reference |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence | governance |
| <p>Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements | Report to those charged with governance |
| <p>Significant deficiencies in internal controls identified during the audit</p> | Report to those charged with governance |
| <p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken | Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary |
| <p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit | Audit Plan Report to those charged with governance and Annual Audit Letter if considered necessary |

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AUDIT COMMITTEE

DATE OF MEETING: 26 MARCH 2013

TITLE OF REPORT: EXTERNAL GRANTS CERTIFICATION REPORT 2011/12

Report of: Head of Finance

Cabinet member: Councillor Crookes, Leader of the Council

1 PURPOSE OF REPORT

1.1 To inform the Audit Committee of the work that the Council's External Auditors Ernst and Young have carried out to confirm that grant claims submitted by the council during 2011/12 were fairly stated.

2 OFFICER RECOMMENDATION

That the report be noted.

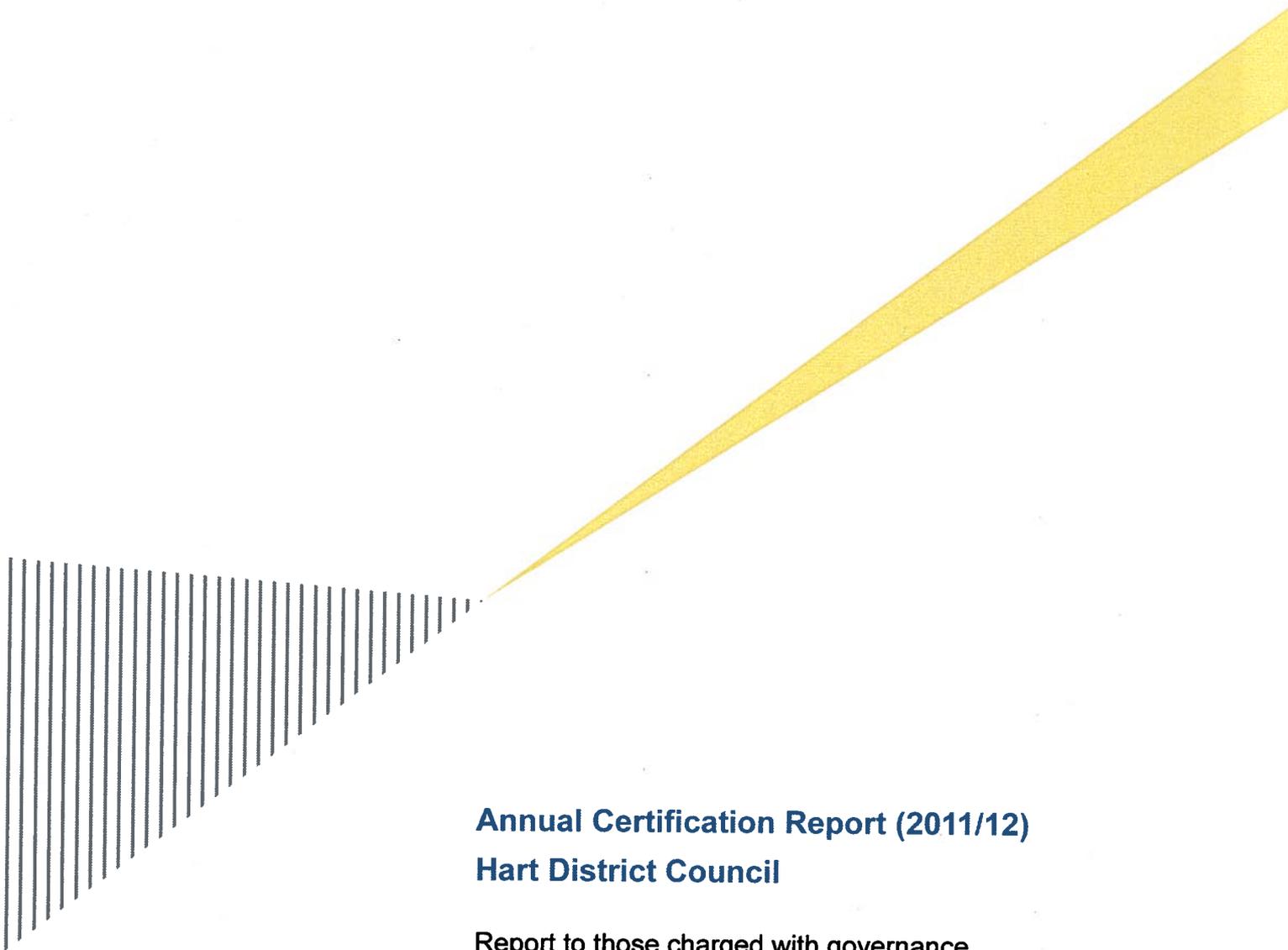
3 BACKGROUND

3.1 The Council claims a significant amount of money from Central Government, the financial elements of these claims will need to be certified. The Grants Certification Report, attached as Appendix I, provides a summary of this work.

4 FINANCIAL IMPLICATIONS

4.1 There are no financial implications arising directly from this report

Contact Details: Head of Finance, Extension: 4207, tony.higgins@hart.gov.uk



**Annual Certification Report (2011/12)
Hart District Council**

Report to those charged with governance

February 2013

Ernst & Young LLP

The Members of the Audit Committee

Hart District Council
Civic Offices
Harlington Way
Fleet
Hampshire
GU51 4AE

18 February 2013

Dear Members

Annual Certification Report (2011/12)

We are pleased to attach our annual certification report for the forthcoming meeting of the Audit Committee. This report summarises the results of certification work that we have undertaken at Hart District Council on 2011/12 claims and returns.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and are required to complete returns providing financial information to government departments. Often these grant-paying bodies require certification from an appropriately qualified auditor of the claims and returns submitted to them.

Certification work is not an audit. Certification work involves executing prescribed tests which are designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions.

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. When such arrangements are made, certification instructions issued by the Audit Commission to Ernst & Young as appointed auditors of the Council set out the work we must undertake before issuing our certificate. We certify grants and claims as they arise throughout the year to meet the audited claim/return submission deadlines set by the grant-paying bodies.

Statement of Responsibilities of Auditors and Audited Bodies

In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' ('Statement of responsibilities'). It is available from the Chief Executive of each audited body and via the Audit Commission website.

The statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

This Annual Certification Report is prepared in the context of the statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party. Following the appointment of Ernst & Young

as auditor for the year ended 31 March 2013 we have been requested to prepare this Annual Certification Report in respect of the year 2011/12. However the certification reported on herein was performed by Audit Commission staff prior to 31 October and therefore not under the direction and supervision of Ernst & Young and accordingly we take no responsibility to the council nor to any third party for the work undertaken.

Results of certification work

During the period 1 April 2011 to 31 March 2012 we certified two claims and returns with a total value of £43,647 million.

Of the claims certified, one (Housing and council tax benefit scheme) was both qualified and amended. Details of the qualification matter are included in section 2. The amendment did affect the grant due to the Council but only by a negligible amount.

All deadlines for submission of certified claims/returns were met.

Fees for certification work are summarised in appendix A.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting scheduled for 4 December 2012.

Yours faithfully
For and on behalf of Ernst & Young LLP

A handwritten signature in black ink, appearing to read 'David Wilkinson', with a horizontal line underneath.

David Wilkinson

Ernst & Young LLP

United Kingdom

Enc.

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1. Summary of 2011/12 Certification Work

| Claim or return | Certificate Instruction (CI) Reference | 2012/13 Claim Value £000s | Qualification (Q) Amendment (A) Neither (-) | Reason for issue, and financial effect. |
|-------------------------------------------|----------------------------------------|---------------------------|---------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Housing and council tax benefit scheme | BEN01 | 16,343 | (Q) (A) | Errors were found within rent allowances, council tax benefits and modified schemes. Errors went in both for and against the Council and the net effect was that grant due to the Council increased by only £10. |
| National non-domestic rates return (NDR3) | LA01 | 27,304 | - | Not applicable |

2. Qualifications in respect of 2011/12 certification work

The certificate that we issue to the grant-paying body is qualified where there is disagreement or uncertainty over an item or items in the claim/return, or the Council has not complied with the scheme terms and conditions. Details of the qualifications made during 2011/12 are provided below.

| Claim/Return | Issue and risk arising | Agreed action plan |
|----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Housing and council tax benefit scheme | <p>Errors were found across rent allowance (7 out of a sample of 20) and council tax benefit cases (4 out of a sample of 20) that resulted in the selection of 40 extra cases for testing in both areas, in accordance with the DWP approved certification process.</p> <p>Extra testing of both areas identified a further 3 errors. The Council chose to amend all errors and replace the original claim form MPF720A leaving only underpayment errors to report in the qualification letter to DWP.</p> <p>Further errors were found in modified scheme awards where disability and war premium rebates were incorrectly awarded or lacked appropriate evidence to support the award. The Council re-examined all 38 relevant cases and amended all errors.</p> <p>These errors were not systematic in nature and virtually all related to data input error at the point of entry, for example transposition of earnings, inadequate support for rebate awards.</p> | <p>The Head of Revenue and Benefits accepts the findings of the claim certification work and has agreed to ensure that data from source evidence is correctly entered into the benefits system to limit the risk of errors in the calculation of rent allowances, council tax benefit and modified schemes.</p> |

3. Progress on previous auditor recommendations

Progress on recommendations from 2010/11 grant certification work is detailed below.

| Agreed action | Deadline | Current status |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|-----------------------------------------------------------------------------------|
| <p>Housing and council tax benefit scheme</p> <p>The Council needs to ensure that its financial systems are fully reconciled to the IBS system after minor reconciling errors were found on both the Housing Benefits and Council Tax.</p> | September 2012 | Complete – no reconciliation errors were found during 2011/12 certification work. |
| <p>Housing and council tax benefit scheme - modified schemes</p> <p>Council tax benefit local case schemes - Pre-1973 supplementary awards were incorrectly applied in 2010/11.</p> | September 2012 | Complete – Pre-1973 supplementary awards were correctly awarded in 2011/12. |
| <p>Housing and council tax benefit scheme - The Council Tax benefit system had not been updated to reflect changes to parish boundaries.</p> | September 2012 | Complete – the system was updated in November 2011. |

Appendix A Certification Fees

| Claim/Return | 2011/12 Actual £ | 2010/11 Actual £ |
|----------------------------------------|------------------------|------------------------|
| Housing and council tax benefit scheme | 31,133 | 32,494 |
| National Non-domestic Rate (NND3) | 3,836 | 4,598 |
| Disabled Facilities Grant (HOU21) | - | 1,288 |
| Total | 34,969 | 38,380 |

The fee was higher in 2010/11 on both claims (HOU21 fell below audit threshold in 2011/12) because there was more manager input in the testing of the claim.

Please note that the table above shows the actual cost of grant certification work by Audit Commission staff prior to 31 October 2012. An estimated further £1,710 has been incurred by Ernst & Young staff on work relating to the transfer and subsequent review and reporting of the grant certification work post 31 October 2012. A revised figure for 2011/12 is estimated at £36,679.

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AUDIT COMMITTEE

DATE OF MEETING: 26 MARCH 2013

TITLE OF REPORT: INTERNAL AUDIT PROGRESS REPORT: Q4
JANUARY 2013 – MARCH 2013

Report of: Internal Audit Manager

Cabinet Member: Councillor Ken Crookes, Leader

I PURPOSE OF REPORT

1.1 To advise the Committee of work completed by Internal Audit between January 2013 and March 2013.

2 OFFICER RECOMMENDATION

2.1 That the Internal Audit work carried out between January 2013 and March 2013 be noted.

3 BACKGROUND

3.1 Internal Audit prepares a risk based annual plan which identifies the work that is to be carried out during the year, the plan for 2012/13 was approved by the Committee in March 2012. Findings from completed reviews will be reported to the Committee each quarter. During the above period reports were issued for:

- NNDR - Appendix 1
- Creditors - Appendix 2

3.2 All High and Medium Risk Internal Audit Recommendations that were made either in the current or previous year were followed up. In future information on follow-ups will be reported to the Committee as part of this report. There are too many recommendations to report on individually, a summary of this work is shown below:

| Number of Recommendations Followed Up High/Medium Only | Complete | In Progress | Outstanding | Revised Date Agreed |
|---------------------------------------------------------------|-----------------|--------------------|---------------------------------|----------------------------|
| 137 | 96 (70%) | 13 (9%) | 23 (18%) All medium risk | 5 (3%) |

3.3 Of the 32 recommendations that are outstanding, further follow up work is to be undertaken on those that are considered to still be valid. The outcome of an additional follow being that either a revised date is agreed to complete the

recommendation, or management will accept the risk issues associated with taking no action.

- 3.4 Whilst responsibility for implementing agreed recommendations lies with management, it is recognised that Internal Audit should have a more rigorous approach to follow ups with a view to improving the 70% success rate. A new process for follow up work has been agreed which includes regular monitoring by a Corporate Director.

4 FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report.

5 MANAGEMENT OF RISK

There are no direct risk implications arising from this report.

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| | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| AREA OF REVIEW | NNDR |
| <p>CONCLUSIONS</p> <p>The controls in place for the management of NNDR do in the main operate as expected. However, there are areas that need to be looked these included a improving audit trails available for discounts and a more regular review of eligibility.</p> <p>Debt recovery should start to improve with the introduction of a new Corporate Debt Recovery policy and it would be good to review the KPI's relating to recovery in order to monitor previous years debt collection more effectively in 2013/14.</p> | |
| OVERALL AUDIT OPINION | Adequate |

Control Objective 1:

That there are adequate policies and procedures in place and communicated to all relevant members of staff

Findings:

- I.1 There was evidence that policies and procedures are available to staff e.g. debt recovery and checklists for annual billing which are held in the Revs and Bens drive. It would be advisable if there was a review of the existing policies, identify where there are gaps and put them all in an easily accessible and identifiable area. Current NNDR legislation manuals are available for all staff to refer to.
- I.2 Capita employees sign up to a Capita intranet security policy when they commence employment with Capita, this policy appears to be comprehensive. With regards to general Hart policies there appeared to be awareness, but there is no formal process of distributing Hart policies to Capita. This should be addressed in order to keep Capita employees up to date with appropriate Hart Policies.
- I.3 Capita Employees are scheduled to have an online data protection training annually. It has been identified that there are a small number of staff have not completed the course during 2012/13, this is being addressed.

| | | | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|--------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|--------------------|
| Risk: | | | | |
| <ul style="list-style-type: none"> Inconsistent working | | | | |
| Recommendation | Risk Category | Management Response | Officer Responsible | Action Date |
| 1. Review of policies and procedures | Medium | Policies and Procedures are reviewed as changes occur throughout the year. Others every 2/3 years as per the individual policy | Manager Revenues and Benefits | On-going |
| 2. When policies are updated and revised a process in put in to place to ensure both Hart and all sub contracted staff are aware of the policy and in some cases acknowledge receipt and understanding. | Medium | Many of the Policies are worked on in consultation with Capita. When required copies of polices will be circulated to Capita. | Corporate Director Hart / Client Teams Hart | Closed |

Control Objective 2

That the NNDR Grant Claim is Accurate and Sent on Time

- 2.1 The NNDR grant claim (NNDRI) for 2012/13 was found to have been submitted twice as it had been identified that the first submission was incorrect. Evidence to support the empty property figures for the second submission was not available at the time of the audit therefore audit were unable to verify that part of the claim.
- 2.2 Checks were made to ensure that Grant claim payments were being received as per the published government schedule, all were found to be the correct amount, received at the right time and had been accounted for appropriately on the GL.

| | | | | |
|-------------------------------------------------------------------------------------------------------------|----------------------|-------------------------------------------------|-------------------------------|--------------------|
| Risk: | | | | |
| <ul style="list-style-type: none"> Poor audit trail Incorrect claim being submitted | | | | |
| Recommendation | Risk Category | Management Response | Officer Responsible | Action Date |
| 3. Future claims should have a complete audit trail to support information being provided. | Medium | Completed – this will be undertaken for 2013/14 | Manager Revenues and Benefits | Immediate |

Control Objective 3

That the NNDR Database is Accurate and Complete

- 3.1 Testing was completed to verify that during annual billing the number of properties on the database agrees with the number of bills raised. The reconciliation indicated that there were 90 more bills produced than actual accounts on the database. There was no report available to support the reason for the NNDR variance. Audit were advised by the Revenues Manager that Capita were satisfied that the bills were correct although audit could not be shown evidence to support that the correct amount of bills were produced for 2012/13.
- 3.2 Credit and Debit balances for year end 2011/12 were checked to ensure that they had been correctly carried forward to 2012/13 correctly. Although the testing confirmed that balances had been correctly carried forward there appeared to be some issues with the timing of the end of year reports which showed differing figures to the actual amounts carried forward. It is recommended that year end reports for 2012/13 are completed at the correct time to report accurately on end of year information
- 3.3 Valuation Office amendments and changes were checked to ensure that notifications had been actioned correctly and in a timely manner. The amendments chosen in the sample had all been actioned correctly. There is currently no timescale for amendments to be actioned with half of the sample of 20 amendments taking over 14 days for the information to be updated on IBS. It is recommended that a target is set to ensure that amendments are processed in a timely manner.
- 3.4 The Valuation report published by the VO on 10/10/12 indicated that the number of properties on the VO database was 2120 with a Rateable Value of £71,061,960 this compared with an IBS total of 2121 properties Rateable Value £71,045,031. This issue was known to Capita and was noted in the 2011/12 audit. Work should be undertaken to find the difference to ensure that the data base is correct.
- 3.5 A sample of NNDR parameters set within IBS were checked for correctness and that they had been properly authorised. The sample checked was found to be correct and had been authorised.

| Risk: Incorrect database. | | | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|--------------------|
| Recommendation | Risk Category | Management Response | Officer Responsible | Action Date |
| 4. The discrepancy in the number of bills raised for 2012/13 needs to be looked in to and evidence needs to be produced to show that the correct number of bills were sent. | Medium | The Revenues Manger verbally confirmed that the number of bills was correct for annual billing 2012/13. A new process is being used for 2013/14. Part of | Manager Revenues and Benefits | March 2013 |

| | | | | |
|----------------------------------------------------------------------------------------------------------------|--------|--------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|------------|
| | | this process will include a reconciliation of the number of bills produced and despatched against the number of properties on the NNDR Database. | | |
| 5. Targets are set to ensure amendments / changes notified by the Valuation office are actioned within 14 days | Low | This will be discussed as an agenda item when the new SIG meeting will commence. | Client | June 2013 |
| 6. Work is undertaken to ensure that the IBS database corresponds correctly with the Valuation Office report | Medium | Agreed | Manager Revenues and Benefits | June 2013 |
| 7. Ensure that year end reports for 2012/13 are run correctly at year end | Medium | Agreed | Manager Revenues and Benefits | March 2013 |

**Control Objective 4
That Charges Have Been Calculated Correctly**

- 4.1 A sample of accounts receiving Small Business Rate Relief (SBR) were checked to ensure that they had been applied for correctly and had been granted appropriately. The accounts in the sample were all eligible for relief and whilst there was evidence of an application form in most of the sample 2 out of a sample of 10 accounts checked did not have sufficient supporting documentation. It was also noted that there have been a number of legislation changes with regards to SBR relief and information on the website needs to be amended to reflect current legislation.
- 4.2 A policy for Review of Mandatory and Discretionary Relief is in place (dated 2009). This policy should be reviewed every 2 years and therefore should be reviewed.
- 4.3 A sample of 10 accounts receiving Mandatory Relief were checked to confirm that reliefs were correct and had been correctly authorised. The sample indicated that the review process was inconsistent, as 30% of the sample had not been reviewed since 2008.
- 4.4 A sample of 10 accounts receiving Discretionary Reliefs were checked to ensure that they had been reviewed in line with policy, which requires a review every 2 years. 50% had received a review in the last 2 years which is in line with council policy. It

was also noted that supporting information provided by the applicant e.g. recent accounts were not always retained. As with Mandatory Reliefs the more recent reviews had been correctly signed off, whilst older awards did not provide a good audit trail. Audit could not place reliance on the reviews of discretionary and mandatory reliefs.

- 4.5 A sample of Empty Properties were checked to ensure that the exemption period was correctly shown and that the charge had been resumed correctly. All but one were found to be administered correctly, which appears to have been an IT issue which is now being looked into by the Revenues Team Leader.

| Risk: Incorrect reliefs awarded | | | | |
|-----------------------------------------------------------------------------|----------------------|----------------------------|-------------------------------|--------------------|
| Recommendation | Risk Category | Management Response | Officer Responsible | Action Date |
| 8. The Mandatory and Discretionary Rate Relief Policy to be reviewed | Low | Agreed | Head of Finance | December 2013 |
| 9. Complete a review of all outstanding Mandatory and Discretionary reliefs | Medium | Agreed | Manager Revenues and Benefits | Immediate |
| 10. Update information on SBR on the Hart District Council Website | Low | Agreed | Manager Revenues and Benefits | March 2013 |

- 4.6 A sample of NNDR payments from April 2012 to November 2012 were checked to ensure that they had been allocated to the appropriate account in a timely manner. All were found to have been processed correctly without delay.
- 4.7 The suspense account for the current year is checked and cleared on a regular basis and at the time of the testing the account for 2012 was showing as a zero balance. Further checks for previous years were undertaken and it appeared that there was a balance still showing dating back to 2005. This should be cleared.
- 4.8 A sample of daily cash postings were checked to ensure that cash totals from the cash receipting system corresponded with IBS and the General Ledger. All were found to be correct.
- 4.9 The sample of refunds checked were found to be valid and had been appropriately reviewed and authorised.

| | | | | |
|------------------------------------------------------------------------|----------------------|------------------------------------------------------------------------------------|-------------------------------|--------------------|
| Risk: | | | | |
| <ul style="list-style-type: none"> • Inaccurate charges | | | | |
| Recommendation | Risk Category | Management Response | Officer Responsible | Action Date |
| 11. That historic suspense items are investigated and cleared. | Low | We are not sure if these old historic items can be cleared but will look into this | Manager Revenues and Benefits | Dec 2013 |

Control Objective 5

That Income Received has Been Correctly Accounted for

- 5.1 There have been some changes in who is responsible for completing reconciliations for NNDR. Currently the reconciliations are completed by Capita Finance and are held in a share drive in order for the Revenues Team to view.
- 5.2 At the time of the audit the payment reconciliation had been completed and was up to date. However it was noted that there was no oversight of the reconciliations and although it is noted that the Head of Finance is now expecting that any issues over the timeliness and accuracy of reconciliations will be reported to the Finance SIG.
- 5.3 Although audit were able to verify that the September reconciliation was correct there was no data extract held from the finance system to support the balances shown. It would be good practice for this to be held as the Revenues Manager does not have access to the finance system.
- 5.4 The refunds reconciliations were found to have not been completed for 2011/12 until year end. At the time of this review, for the current year only 3 months of refund reconciliations had been completed and none appeared to balance. Therefore reliance could not be placed on the refund reconciliation albeit the sample testing on weekly refunds was found to be satisfactory. It also raises the question as to whether reports of issues on reconciliations are being fed to the Finance SIG.

| | | | | |
|-------------------------------------------------------------------------------------------------------------------------------|----------------------|-----------------------------------------------------------------------|----------------------------|--------------------|
| Risk: | | | | |
| <ul style="list-style-type: none"> • NNDR Income is not properly accounted for • Poor audit trail | | | | |
| Recommendation | Risk Category | Management Response | Officer Responsible | Action Date |
| 12. That the Payment and Refund reconciliations are completed on a monthly basis and any issues with are reported at the SIG. | Medium | Agreed. Any exceptions will be reported to the SIG on a monthly basis | Finance Manager (Capita) | March 2013 |

| | | | | |
|-------------------------------------------------------------------|--------|---------|--------------------------|------------|
| 13. That a full audit trail is accessible for each reconciliation | Medium | Agreed. | Finance Manager (Capita) | March 2013 |
|-------------------------------------------------------------------|--------|---------|--------------------------|------------|

Control Objective 6

That Effective Recovery Action is Taken Against Outstanding Debt

- 6.1 A new debt policy was approved by Cabinet on 6th December 2012. This policy incorporates additional methods of debt collection including charges on properties and committal proceedings. Following on from this there will need to be some changes in service procedures to ensure that these changes are understood and implemented.
- 6.2 A recovery timetable is in place, testing indicated that it was being adhered to with recovery letters being automatically generated as per the schedule in a timely manner. These debt letters are sent out when two instalments have been missed however this is due to change from April 2013 to one instalment.
- 6.3 A sample of accounts were checked to ensure that recovery action is taken place in a timely manner. No issues were identified that require any action.
- 6.4 There is a lack of consistency in the allocation of recovery payments to accounts. Audit was advised that live accounts should have current years debts cleared as a priority and then previous years accounts starting with the most recent cleared first. Closed accounts should have oldest debts cleared first. Testing indicated that this was not always followed. The Head of Finance was made aware of the issue and where normal practice was not followed is satisfied with the explanations provided by Capita.
- 6.5 The sample of special arrangements indicated that in general the payments were being maintained and where they were not they were being chased. It was noted that there were some arrangements set up that were long term, for example until 2031. There was no evidence that this had been signed off by a senior officer.
- 6.6 A sample of Inhibit accounts indicated that some accounts had not been reviewed on a regular basis. These accounts should be reviewed on a regular basis to ensure that circumstances have not changes and that the inhibit is still valid.
- 6.7 Write off's appear to have been reviewed and authorised albeit in some cases there are delays in completing the write off.

| Risk: | | | | |
|-----------------------------------------------------------------------------------------------------------------|----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|--------------------|
| <ul style="list-style-type: none"> Recovery Action is not taken promptly | | | | |
| Recommendation | Risk Category | Management Response | Officer Responsible | Action Date |
| 14. Ensure that there are corporate guidelines on how to implement and process any new debt collection methods. | Medium | Information has been sent out to Heads of Service detailing the Draft Revenues and Benefits Debt Policy as a start to this process. This is being led by the Corporate Director. | Head of Finance | Ongoing |
| 15. Clarify the processing and allocation of recovered current year and previous years debt | Medium | The Head of Finance will re confirm this with the Revenues Manager | Head of Finance | June 2013 |
| 16. Inhibit accounts should be reviewed on a regular basis. | Medium | Agreed | Manager Revenues and Benefits | Immediate |

Control Objective 7

That Performance Measures Have Been Set by the Council That are Effectively Monitored

- 7.1 A monthly report is produced by the Revenues Manager and circulated to The Client Officer for Finance, Corporate Directors and Head of Finance. The report details performance information including collection rates, recovery rates, and dealing with customer correspondence.
- 7.2 The recovery rates reported for previous year s arrears reduction shows collection performance is currently 17% against a target of 45%. Where the target is not being achieved it would be good practice to show an action plan to indicate what plans are in place to improve performance.
- 7.3 There is no formal meeting held between Hart Client and Capita to review and discuss progress, issues and continuous improvement. It is recommended that there is a forum to discuss these items possibly as an extension to the Finance SIG.
- 7.4 The Revenues and Benefits Performance Framework 2010/11 details the current performance measures in place to measure performance and standards. It would be good practice to review these indicators and measures to ensure that these are still relevant.

| Risk: | | | | |
|------------------------------------------------------------------------------------------------------------------------|----------------------|-----------------------------------------------------------|----------------------------|--------------------|
| <ul style="list-style-type: none"> • Poor Management of the Revenues Contract | | | | |
| Recommendation | Risk Category | Management Response | Officer Responsible | Action Date |
| 17. That the Revenues and Benefits KPI's / PI's are reviewed to reflect current objectives | Medium | Agreed – Work in progress to review KPI's in all services | Corporate Director | Immediate |
| 18. A formal planned review meeting, similar to the Finance Services Improvement Group is held between Capita and Hart | Medium | Agreed. Will be added to the Finance SIG. | Corporate Director | May 2013 |

| | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|
| AREA OF REVIEW | Creditors (Accounts Payable) |
| <p>CONCLUSIONS</p> <p>There is reasonable assurance that creditor payments are accurate and made in a timely manner. There is also sufficient evidence to suggest controls relating to authorisation of payments are working as expected.</p> <p>There are a number of areas where improvements could be made these are linked to review of reconciliations and system access by a Hart employee and increasing the use of Purchase Orders when ordering goods and services from suppliers. A more pro-active approach to the prevention and detection of fraud should also be considered by using exception reporting and better management of the supplier database.</p> <p>It is noted that the new Finance System (Integra), is to be implemented for 2013/14. Prior to the system going live management needs to ensure that the internal control system has been properly tested to ensure payments are properly accounted for and authorised. It is also essential that adequate checks are made to confirm any data migrated from the current system (Cedar) is accurate and complete.</p> | |
| OVERALL AUDIT OPINION | Adequate |

Control Objective I

That all Payments Comply with the Requirements of Financial Regulations and Contract Procurement Rules.

- I.1 Financial Regulations and Contract Standing Orders are both currently being updated. In the interim all payment transactions should comply with the current versions of both of these key documents.
- I.2 Financial Regulations and Contract Standing Orders are part of the Council's Constitution and therefore both would need to be approved by Full Council; it is planned to take both to Cabinet in March 2013, prior to approval by Full Council. This means that the Council will continue to work with the current versions of these documents for the short term. The current versions are adequate but it should be noted that neither reflect the current structure of the Council.
- I.3 There are two system options available for the processing of payment transactions. The first is via e-procurement which has the benefits of using purchase orders and the controls associated with matching the goods or services received against those that were ordered. It is also able to match the financial value of the invoice against the quoted cost on the purchase order. The second option is using a process that is called ISS (Internal Self Service). This option does not require the use of purchase orders and should be used for the payment of invoices where it was not possible to use a purchase order such as electricity, gas and water bills.
- I.4 It is noted that a significant number of payments are made without the use of a Purchase Order. During the period between September 2011 and August 2012, 4,900 payment transactions were made. Of these 65% were made without a Purchase Order. This does seem high and means that most payment transactions are made without the benefit of system controls that are built into the Finance System,

including those that reduce the risk of fraud. It is noted that the revised Standing Orders do state that Purchase Orders must be raised for all payments over £150.00. It is therefore incumbent on management to ensure this requirement is complied with in the future.

| Risks | | | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------|----------------------|-----------------------------------------------------------------------------------------------------------|----------------------------|--------------------|
| <ul style="list-style-type: none"> • Unable to use system controls effectively • Fraud • Inaccurate payments | | | | |
| Recommendation | Risk Category | Officer Comments | Responsible Officer | Target Date |
| I That officers who are responsible for processing payments are reminded of the need to use Purchase Orders. | Medium | Agreed, Heads of Service and Service Managers will be reminded at Management Team to use purchase orders. | Head of Finance | Feb 2013 |

Control Objective 2

That all Purchase Orders and Payments are Authorised by the Appropriate Budget Holder

- 2.1 A sample of 20 payments was tested to confirm the following:
- That where appropriate Purchase Orders had been used
 - That the payment had been properly authorised
 - That adequate details were shown both on the invoice and the purchase order
 - That appropriate separation of duties exists between the officer who process the payment and the officer who authorised it
- 2.2 As previously stated Purchase Orders are not always raised for the procurement of goods and services.
- 2.3 Of the sample of invoice payments tested all were found to have been properly authorised.
- 2.4 Of the sample of invoices reviewed there was sufficient detail on the invoice that showed a description of the goods or services that were received. It was also noted that where a Purchase Order was used the goods or services stated on the purchase order matched with that on the invoice. This is another good reason to use Purchase Orders as the audit trail is improved and there is evidence that the goods or service invoiced are the same as ordered.
- 2.5 The sample of invoices tested showed good separation of duties between the officer who processes a payment and the authorising officer. It is also noted that the authorisation matrix held within Cedar does not allow for the same officer to be able to approve a payment and raise an order.

- 2.6 A check was made on a sample of 5 payment runs to confirm each had been properly authorised. Each payment run was authorised by the Chief Executive.
- 2.7 As part of the weekly Payment Run suite of reports an Aged Creditor Report is produced. There is no evidence that this report is reviewed and there are items shown on the report that are well over 30 days old and need to be resolved. For example there is a credit note of £7,900 (dated November 2011) that is from a supplier that is unlikely to be used again. This supplier should be contacted and a refund requested instead of waiting for invoices to be received to cover the credit note.
- 2.8 It was noted that the authorisation level for the Head of Leisure includes items that are over £100,000. The authorisation level for a Head of Service is up to £100,000. It is felt that the authorisation level for the Head of Leisure should be amended to reflect this and be consistent with other Heads of Service.
- 2.9 There is one control account where a capita employee would be able to authorise expenditure from. Capita employees should not be able to authorise Hart expenditure and the control of this account should be reviewed.

| Risks | | | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|-----------------------------------------------------------------------------------------------------------------------------------|----------------------------|--------------------|
| <ul style="list-style-type: none"> • That payments are not properly authorised • Payment transactions do not comply with Financial Regulations • Fraud • Poor management of cash flow | | | | |
| Recommendation | Risk Category | Management Response | Officer Responsible | Action Date |
| 2. That the Aged Creditor Report is regularly reviewed and that items that are over 30 days old that have no dispute indicator against them are resolved. | Medium | Management Team have been reminded to review reports provided by Finance. Areas of concern to be reported to the Head of Finance. | Management Team | April 2013 |
| 3. That the authorisation level for the Head of Leisure is amended so it is in line with other Heads of Service, | Medium | The implementation of Integra (New Finance System will resolve this issue. | Head of Finance | April 2013 |
| 4.. That the ability to authorise expenditure for one Capita employee is disabled. | Medium | Agreed. | Finance Manager (Capita) | April 2013 |

Control Objective 3
That Payments are Processed Accurately and in a Timely Manner

3.1 A local performance target has been set for the payment of invoices, the target being that 97% of invoices for commercial goods & services are paid by the Authority within 30 days of receipt or within the agreed payment terms. Performance for the first 6 months of the year is given below:

| Month | Performance % |
|--------------|----------------------|
| April | 96.4 |
| May | 96.5 |
| June | 91.6 |
| July | 93.2 |
| August | 91.4 |
| Sept | 97.7 |
| Oct | 96.6 |
| Nov | 96.3 |
| Average | 94.9 |

3.2 The sample of invoices tested showed that 90% were paid within the target. As noted above, only one period has met the target of 97%. Senior Managers have been reminded to pay suppliers promptly. Although there is an argument that cashflow would be improved if the performance target was that suppliers are paid within the agreed payment terms rather than as quickly as possible.

3.3 Of the sample of invoices checked, all were found to have been correctly calculated. Although it was noted that there was one occasion where the Purchase Order was raised after the invoice had been received. Any benefit of using the e-procurement process is lost when this occurs, as there is no matching the receipt of goods or service against the invoice and order.

| Risks | | | | |
|----------------------------------------------------------------------------------------------------------------|----------------------|----------------------------|----------------------------|--------------------|
| <ul style="list-style-type: none"> • Inaccurate payments • Suppliers not paid promptly | | | | |
| Recommendation | Risk Category | Management Response | Officer Responsible | Action Date |
| See recommendation I on the use of purchase orders. | | | | |

Control Objective 4
That Payments are Correctly Accounted For

- 4.1 The Creditor Reconciliation for November 2012 was reviewed. Whilst the reconciliation was up to date and had been completed in a timely manner there were two low value balances on the account brought forward from 2011/12 that need to be investigated and cleared.
- 4.2 It was also noted that as with other financial reconciliations there is no review by a Hart Employee. Reconciliations are key financial controls and whilst Capita Finance are carrying out the work as expected, it is felt that the Council should check and review that they are being carried out. It is not good practice to rely on Internal Audit to be the only review function for reconciliations.
- 4.3 A sample of 20 payments was checked to confirm that each transaction had been posted to the correct cost centre. Whilst one posting error was identified this is an improvement on the previous year when 4 errors were identified for the same test. It should be noted that the one posting error occurred because the invoice was coded directly to a control account. Expenditure should be posted to the appropriate revenue or capital account not a control account.

| Risks | | | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|--------------------|
| <ul style="list-style-type: none"> • Expenditure is not properly accounted for • Budget Monitoring is weakened | | | | |
| Recommendation | Risk | Management Response | Responsible Officer | Action Date |
| 5. That the balancing items on the creditors reconciliation brought forward from 2011/12 are investigated and resolved. | Low | Will be reviewed and cleared as part of year end process. | Finance Manager (Capita) | June 2013 |
| 6. That a Hart Employee reviews key reconciliations on a regular basis to confirm they are accurate and have been completed in a timely manner. | Medium | Reconciliations that are either not up to date or show a variance that cannot be explained, will be reported by exception to the Finance Service Improvement Group. | Head of Finance Finance Manager (Capita) | March 2013 |

6. OTHER AREAS REVIEWED

System Access

- 6.1 Access to Cedar was reviewed to confirm the following:
- That access is only available to current Hart employees and appropriate Capita employees
 - That access is only available to those that need it to carry out their role
 - That access is reviewed by a Hart employee on a regular basis
- 6.2 A system access report showed 4 users that still had access to Cedar, who would no longer require it. It is noted that none of these users had a live Network Account which would mean that they would be unable to gain access to the Finance System. Capita Finance have confirmed that each of the above users have now had their access disabled on Cedar.
- 6.3 Apart from the above exceptions there is reasonable assurance that access is only available to Cedar to those employees both Hart and Capita that need it to carry out their role.
- 6.4 There was no evidence of a system access review by a Hart employee to confirm access levels appear reasonable, again it is not good practice for Internal Audit to be the only review of system access.

It should be noted that the above findings relate to access to the Cedar System Only. Access to the network is being dealt with separately and will be reported to the committee once that work has been completed.

Supplier Database

- 6.5 The supplier database is managed by Capita Finance on a daily basis. However, it is the Council's responsibility to ensure it is up to date and that any changes to the database are reviewed and monitored. The manipulation of supplier details is one of the most frequent ways to commit fraud within the accounts payable process.
- 6.6 There is currently no pro-active monitoring of the supplier database. Ideally the Council should be reviewing changes to supplier details on a regular basis and also ensure that it only contains current suppliers, (those that have been used in the last year) and no duplicate accounts. Effective management of the supplier database will reduce the risk of fraud.
- 6.7 It is noted that there are 1100 suppliers on our database which for a small council does seem high. It is accepted that as part of the implementation of the new finance system (Integra), the supplier database will be reviewed to ensure only live suppliers are migrated to the new system.

Exception Reporting

6.8 One of the controls that could be used to reduce the risk of fraud is the use of exception reporting. There are a variety of reports that management could be using to highlight unusual or fraudulent transactions, Internal Audit would be able to assist in setting up a suite of such reports.

Corporate Credit Cards

6.9 There are a small number of payments made using corporate credit cards, these are normally made when an immediate payment is required by the supplier or in the event of an emergency.

6.10 The Credit Card Statement for July was reviewed and whilst all transactions appeared to be properly accounted for, it is felt that guidance needs to be issued to employees stating the circumstances that credit cards can be used. It is noted that draft guidance has been completed, this needs to be finalised and issued.

6.11 Discussions with Capita Finance indicate that there are occasions where credit cards are transferred between services. If the need for a card is justified it is not a problem to issue a card to a service. It may be worthwhile issuing at least one card to each service, as long as there is a nominated holder.

6.12 It is also noted that an employee on long term secondment has the use of a corporate credit card. It is felt that this card should be returned to the council as the spend on the card is not related to services provided by Hart.

| Recommendation | Risk | Management Response | Responsible Officer | Action Date |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|--------------------|
| 7. That there is a regular review by a Hart Employee of Cedar system access to confirm it is only available to current employees of both Hart and Capita who require it for their role. (Cedar System only). | High | Capita will be asked to disable access to Cedar for users who have not accessed the system for a period of one month. In addition access will be reviewed by the Client Team quarterly. | Head of Finance | April 2013 |
| 8. That there should be a regular review of the supplier database to ensure it only contains current suppliers. | Medium | A report of the Supplier Database will be provided by Capita Finance on a quarterly basis. This will be reviewed by Hart for reasonableness. | Head of Finance | June 2013 |

PAPER D
Appendix 2

| | | | | |
|--------------------------------------------------------------------------------------------------|-----|------------------------------------------------------------------------------------|-----------------|------------|
| | | | | |
| 9. That guidance on the use of Corporate Credit Cards is issued to employees. | Low | Guidance notes have been prepared and are now being finalised before being issued. | Head of Finance | April 2013 |
| 10. That the credit card used by an employee on long term secondment is returned to the council. | Low | Agreed and will be discussed with the Head of Housing. | Head of Finance | April 2013 |

AUDIT COMMITTEE

DATE OF MEETING: 26 MARCH 2013

TITLE OF REPORT: INTERNAL AUDIT PLAN 2013/14

Report of: Audit Manager

Cabinet Member: Councillor Ken Crookes, Leader

1 PURPOSE OF REPORT

The purpose of this report is to inform members of the content of the 2013/14 Internal Audit Plan, attached as Appendix I.

2 RECOMMENDATION

2.1 That the Committee approves the Internal Audit Plan for 2013/14. (Appendix I)

3 BACKGROUND

3.1 The Internal Audit Plan provides a summary of the planned work for 2013/14.

3.2 The plan is based on a risk assessment which includes the following elements:

- Corporate Strategic Risk Register
- Operational Risk Registers (service based)
- Budget
- Corporate Priorities
- Previous Audit Work
- External Audit Requirements

3.3 A significant part of the Internal Audit resource for 2013/14 is once again focused on the Council's financial systems. This is the statutory element of Internal Audits work, arising from Section 151 of the Local Government Act 1972 and the Accounts and Audit Regulations 2011. Four other reviews will be carried out during although it should be noted that the scope for these have not yet been decided.

4 FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report.

5 MANAGEMENT OF RISK

There are no direct risk implications arising from this report.

Contact Details: Neil Carpenter Extension: 4140, e-mail: neil.carpenter@hart.gov.uk

2013/14 AUDIT PLAN

PAPER E
Appendix I

| AUDIT PLAN 2013/14 | | | | | | | | | |
|---------------------------------|------------|-------------|-------------|-------------|-------------|-------------|---------------|---------------|--|
| | Auditor | Latest | | | | Total | Planned | Vari | |
| | Days | Plan | Neil | Jo | Julie | to Date | | ance | |
| | 2013/14 | | | | | | | | |
| Finance | | | | | | | | | |
| Main Accounting | | | | | | 0.00 | 0.00 | 0.00 | |
| Sundry Debtors | 15 | | | | | 0.00 | 15.00 | 15.00 | |
| Payment of Creditors | 15 | | | | | 0.00 | 15.00 | 15.00 | |
| Payroll & Member Allow/Expenses | 15 | | | | | 0.00 | 15.00 | 15.00 | |
| Treasury Management | 10 | | | | | 0.00 | 10.00 | 10.00 | |
| Council Tax | 15 | | | | | 0.00 | 15.00 | 15.00 | |
| NNDR | 15 | | | | | 0.00 | 15.00 | 15.00 | |
| Housing Benefits | 20 | | | | | 0.00 | 20.00 | 20.00 | |
| Cash Management/Cashups | 12 | | | | | 0.00 | 12.00 | 12.00 | |
| TOTAL | 117 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 117.00 | 117.00 | |
| Other Reviews | | | | | | | | | |
| Finishing off 2012/13 Work | 4 | | | | | 0.00 | 4.00 | 4.00 | |
| Waste | 10 | | | | | 0.00 | 10.00 | 10.00 | |
| Parking | 10 | | | | | 0.00 | 10.00 | 10.00 | |
| Frogmore | 15 | | | | | 0.00 | 15.00 | 15.00 | |
| IT | 10 | | | | | 0.00 | 10.00 | 10.00 | |
| TOTAL | 49 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 49.00 | 49.00 | |
| Corporate Work | | | | | | | | | |
| Risk Management | 20 | | | | | 0.00 | 20.00 | 20.00 | |
| Fraud/NFI | 20 | | | | | 0.00 | 20.00 | 20.00 | |
| Corporate Governance | 5 | | | | | 0.00 | 5.00 | 5.00 | |
| Working groups | 5 | | | | | 0.00 | 5.00 | 5.00 | |
| Procurement | 10 | | | | | 0.00 | 10.00 | 10.00 | |
| Corporate Work | 40 | | | | | 0.00 | 40.00 | 40.00 | |
| TOTAL | 100 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 100.00 | 100.00 | |
| Other Audit Work | | | | | | | | | |
| Audit Planning | 25 | | | | | 0.00 | 25.00 | 25.00 | |
| Audit Committee | 10 | | | | | 0.00 | 10.00 | 10.00 | |
| Follow ups | 10 | | | | | 0.00 | 10.00 | 10.00 | |
| Advice and consultancy | 20 | | | | | 0.00 | 20.00 | 20.00 | |
| Hampshire Audit Groups | 5 | | | | | 0.00 | 5.00 | 5.00 | |
| Contingency | 10 | | | | | 0.00 | 10.00 | 10.00 | |
| TOTAL | 80 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 80.00 | 80.00 | |

2013/14 AUDIT PLAN

**PAPER E
Appendix I**

| | | | | | | | | | |
|------------------------------|------------|-------------|-------------|-------------|-------------|-------------|---------------|---------------|--|
| | | | | | | | | | |
| GRAND TOTAL - AUDIT | 346 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 346.00 | 346.00 | |
| | | | | | | | | | |
| Public Accountability | | | | | | | | | |
| Ext Audit Liaison | 15 | | | | | 0.00 | 15.00 | 15.00 | |
| Ombudsman | 5 | | | | | 0.00 | 5.00 | 5.00 | |
| Annual Governance Statement | 5 | | | | | 0.00 | 5.00 | 5.00 | |
| TOTAL | 25 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 25.00 | 25.00 | |
| | | | | | | | | | |
| Non Accountable | | | | | | | | | |
| Training | 5 | | | | | 0.00 | 5.00 | 5.00 | |
| Admin | 25 | | | | | 0.00 | 25.00 | 25.00 | |
| Appraisals | 2 | | | | | 0.00 | 2.00 | 2.00 | |
| TOTAL | 32 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 32.00 | 32.00 | |
| | | | | | | | | | |
| TOTAL CHARGEABLE | 403 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 403.00 | 403.00 | |
| | | | | | | | | | |
| Non Productive | | | | | | | | | |
| Bank Holiday | 10 | | | | | 0.00 | 10.00 | 10.00 | |
| Leave | 45 | | | | | 0.00 | 45.00 | 45.00 | |
| TOTAL NON-PRODUCTIVE | 55 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 55.00 | 55.00 | |
| | | | | | | | | | |
| GRAND TOTAL | 458 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 458.00 | 458.00 | |

AUDIT COMMITTEE

DATE OF MEETING: 26 MARCH 2013

TITLE OF REPORT: STRATEGIC AND OPERATIONAL RISK REGISTERS UPDATE (MARCH 2013)

Report of: Internal Audit Manager

Cabinet Member: Councillor Ken Crookes, Leader

1. PURPOSE OF REPORT

- 1.1 To update the Committee on the content of the Council's Strategic and Operational Risk Registers.

2. OFFICER RECOMMENDATION

That the report be noted.

3. BACKGROUND

- 3.1 As part of the council's governance arrangements the committee should be informed on the content of Strategic and Operational Risk Registers and what measures are in place to mitigate risks identified..
- 3.2 This report should provide an update on the content of the Strategic Risk Register and Operational Risks that have been assessed as being either red or high amber. However until the content of the Corporate Plan is agreed an assessment of strategic risks cannot be provided as they should be aligned with the objectives of that Plan. This means that only operational risks are included in this report.
- 3.3 It is noted that discussions are taking place between Political Group Leaders and the Chief Executive on a way forward for the Corporate Plan. However, the lack of an agreed plan becomes a risk in itself, as it is a key part of The Council's Governance Framework. This does mean that as part of the Annual Governance Statement for 2012/13 which is a statutory part of the council's Statements of Accounts the absence of a Corporate Plan is likely to be reported on.
- 3.4 Whilst there is not a specific report on the council's strategic risks, they currently focus on Local Plan issues and Budget pressures. These risks are discussed on a regular basis at both member and officer levels and there is on-going dialogue on how these strategic risks are mitigated.

3.5 A summary of the current operational risks are shown below:

| Operational Risks | | | | |
|--------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Number of Risks | Quarter 1 2012/13 | Quarter 2 2012/13 | Quarter 3 2012/13 | Quarter 4 2012/13 |
| Alert Status | Red: 0% Amber: 42% Green: 58% | Red: 0% Amber: 40% Green: 60% | Red: 0% Amber: 37% Green: 63% | Red: 0% Amber: 37% Green: 63% |

3.6 Further detail on those risks that are categorised as being assessed as red or high amber is shown in Appendix I.

4. FINANCIAL IMPLICATIONS

There are no financial implications that arise directly from this report.

5. MANAGEMENT OF RISK

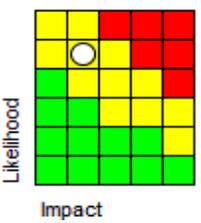
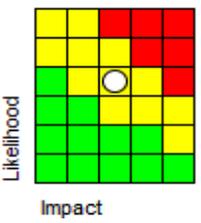
The risk implications are clearly stated in Appendix I.

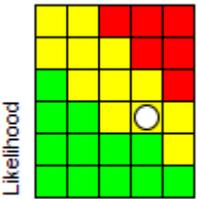
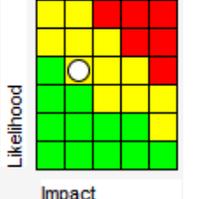
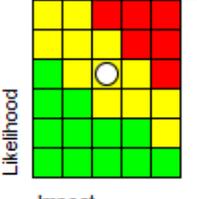
Contact Details: Neil Carpenter, x 4140, neil.carpenter@hart.gov.uk

APPENDICES

Appendix I Summary of High Amber Operational Risks March 2013

Operational Risks(Red or High Amber only) March 2013

| Risk | Potential Effect | Next Review Date | Internal Controls/ Mitigation | Alert Level | Movement |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|--------------|
| <p>Interruptions to IT Systems</p> <p>Latest Assessment The council is moving more of its corporate systems off site. This improves stability as software will sit on new servers which will be more reliable than those currently being used. However until the process is complete the risk remains at the same level. Target date for moving Planning, Health and Finance systems off site is June 2013.</p> | <p>Loss of IT systems</p> | <p>June 2013</p> | <ul style="list-style-type: none"> • Uninterruptible power supply in place • Regular backups • Offsite storage for backups • Disaster Recovery Arrangements in place • Successful testing of disaster Recovery for IBS and Payroll has been carried out. • Corporate Systems to be managed off site using new servers. These include Planning, Health and Finance Systems. |  <p>Likelihood</p> <p>Impact</p> | <p>_____</p> |
| <p>Closure of one of the gypsy sites in Hart due to lease running out.</p> <p>Latest Assessment No change. Legal opinion is that the site cannot be closed at the end of the lease without some sort of action from the leaseholder. County Estates are in negotiations with the land owners of the site regarding the lease and are separately looking to tender the future management of both sites within Hart.</p> | <p>One gypsy site will close without suitable alternative provision be made.</p> | <p>June 2013</p> | <ul style="list-style-type: none"> • Legal assessment of lease requested • Assessment of lease has now been carried out by Legal Services • Awaiting assessment of lease by HCC |  <p>Likelihood</p> <p>Impact</p> | <p>_____</p> |

| | | | | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|----------|
| <p>Failure of pool plant equipment, due to age and availability of replacement parts.</p> <p>Latest Assessment The risk assessment is low. However, given the significant impact the closure of the pool would have on income the risk is included in this report. A mitigation strategy is to be established by The Head of Leisure to manage this risk.</p> | <p>Reduction in income and impact on budget.</p> | <p>June 2013</p> | <ul style="list-style-type: none"> Regular testing of plant Mitigation Strategy to be established for the medium term. |  | <p>↑</p> |
| <p>Payment Card Industry Compliance</p> <p>Latest Assessment No change. The current arrangements for managing credit card data are not fully compliant with the requirements of Payment Card Industry Standards relating to the security of data.</p> | <p>Withdrawal of credit card payments facilities and potential financial penalties. Customers unable to make payments by credit card.</p> | <p>June 2013</p> | <ul style="list-style-type: none"> Implementation of a new Income Management System will resolve the PCI issue. This has now been agreed by Cabinet and a target date for go live of the new system is May 2013. |  | <p>—</p> |
| <p>Target on the use of temporary accommodation for the homeless is not being met.</p> <p>Latest Assessment No change. The pressure on the private rented sector remains high, resulting in more short term use of Bed and Breakfast accommodation.</p> | <p>Likely failure to meet government targets on the use of temporary bed and breakfast accommodation. Government target being that the homeless should not be using Bed and Breakfast accommodation for longer than 6 weeks.</p> | <p>June 2013</p> | <ul style="list-style-type: none"> Regular monitoring of the availability of private sector properties that would be suitable for the homeless. Use of discharging a duty on the council to provide accommodation to those that do not take up appropriate offers of housing. Report to be sent to Cabinet by March 2013. |  | <p>—</p> |

AUDIT COMMITTEE

Date and Time: Tuesday, 26 March 2013 at 7pm

Place: Committee Room 1, Civic Offices, Fleet

Present:

COUNCILLORS

Neighbour (Chairman)

Bailey, Barrell, Collett

In attendance:

Officers:

Tony Higgins Head of Finance

Neil Carpenter Audit Manager

Auditors:

Paul King Ernst and Young

Malcolm Haines Ernst and Young

26 MINUTES OF THE PREVIOUS MEETING

The Minutes of the meeting held on 4 December 2012 were confirmed and signed as a correct record.

27 APOLOGIES FOR ABSENCE

Apologies were received from Councillors Axam, Gani and Simmons.

28 CHAIRMAN'S ANNOUNCEMENTS

None.

29 DECLARATIONS OF INTEREST

Councillor Collett declared that he is now a Board Member of the Audit Commission, but has been told by the Commission that there should be no issues relating to a conflict of interest.

30 EXTERNAL AUDIT PLAN 2012/13

The Committee were informed of the work that the Council's External Auditors, Ernst and Young, plan to carry out to complete the audit of the Council's financial statements for 2012/13.

Paul King of Ernst and Young highlighted the key areas of the External Audit Plan to members. A discussion on the following also took place:

- The arrangements that are being put in place for the council to provide the financial data required for Ernst and Young to carry out their data analytics exercise
- How Ernst and Young decide the threshold on materiality of £42,000.
- The reduction on the Audit Fee for 2012/13 of 40%.

RESOLVED

That the report be noted.

31 EXTERNAL GRANTS CERTIFICATION REPORT 2011/12

The Committee were informed of the work that the Council's External Auditors have carried out to confirm that grant claims submitted by the Council during 2011/12 were fairly stated.

Members were concerned at the error rate for Housing Benefit Claims and asked what controls were in place to reduce these. The Head of Finance stated that Capita were enhancing their checks on Housing Benefit Claims. He would remind Capita of the need to ensure adequate quality assurance had been implemented before the subsidy claim for 2012/13 was submitted for signature before the end of June.

Internal Audit will report their findings on the control framework for Housing Benefits at the next meeting. This should provide an indication on whether the internal controls are working effectively.

RESOLVED

That the report be noted.

32 INTERNAL AUDIT PROGRESS REPORT: Q4 JANUARY 2013 – MARCH 2013

Members were advised of work completed by Internal Audit between January 2013 and March 2013.

The content of the report was discussed and the following issues were raised:

That updates on progress being made to implement internal audit recommendations to be provided at the next meeting. The Audit Manager confirmed that an update will be provided on the status of internal audit recommendations will be provided at all future meetings.

RESOLVED

That the Internal Audit work carried out between January 2013 and March 2013 be noted.

33 INTERNAL AUDIT PLAN 2013/14

The Committee were advised on the content of the Internal Audit plan for 2013/14.

The Committee asked that the review of Frogmore Liesure Centre should be omitted from the Plan as it was felt that the work proposed did not constitute a normal audit review and would be better undertaken by management. The Audit Manager suggested that the 15 days could be used to increase the number of days spent on fraud prevention and one other review area which would be identified from the 2013/14 risk assessment.

A copy of any revised Internal Audit Plan will be forwarded to the Committee once the Audit Manager and the Head of Finance have considered the scope of the audit brief which had been proposed for Frogmore Leisure Centre.

RESOLVED

That the committee approves the revised Internal Audit Plan for 2013/14

34 STRATEGIC AND OPERATIONAL RISK REGISTERS UPDATE (MARCH 2013)

The Committee were updated on the contents of the Council's Strategic and Operational Risk Registers.

The Committee requested an update on outstanding issues regarding the lease for Pennyhill Park Gypsy Site. It was agreed to ask the Head of Housing to e-mail a response to members of the committee.

RESOLVED

That the report be noted.

The meeting closed at: 8.45 pm