

CITY OF DURHAM

AUDIT OVERVIEW COMMITTEE

12TH JULY 2007

REPORT OF THE DIRECTOR OF STRATEGIC RESOURCES

1. INTRODUCTION

1.1 This report will cover:-

- ◆ The Role of Internal Audit
- ◆ Staff Establishment
- ◆ The Strategic Audit Plan
- ◆ The 2006/2007 Annual Audit Plan out-turn
- ◆ The 2007/2008 Annual Audit Plan progress report for the 1/04/07 to the 31/05/07

2. THE ROLE OF INTERNAL AUDIT

2.1 Internal audit is defined as being “an assurance function that provides an independent and objective opinion to the Council on the control environment by evaluating its effectiveness in achieving the Council’s objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.”

2.2 The control environment comprises the organisation’s policies, procedures and operations in place to:

- a) establish, and monitor the achievement of, the organisation’s objectives
- b) identify, assess and manage the risks to achieving the organisation’s objectives
- c) facilitate policy and decision making
- d) ensure the economical, effective and efficient use of resources
- e) ensure compliance with established policies (including behavioural and ethical expectations), procedures, laws and regulations
- f) safeguard the organisation’s assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption
- g) ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes. It encompasses elements of corporate governance and risk management.

2.3 Internal Audit provides a range of services, which support effective management by helping managers to:

- ◆ Monitor performance
- ◆ Improve operational efficiency
- ◆ Successfully meet their objectives
- ◆ Review, identify, and mitigate areas of risk
- ◆ Review and identify Corporate Governance issues
- ◆ Assist managers in the identification, and collation of the evidence required to support the Council’s Statement of Internal Control

2.4 The Council's Internal Audit Section helps managers to maintain financial control by providing a service, which is:

- ◆ Independent
- ◆ Objective
- ◆ Responsive to needs
- ◆ Constructive in its approach, appraisal and recommendations.

2.5 The aim is to provide a quality service to ensure that:

- a) Financial and other management information is reliable and effective
- b) Resources are employed in an economical, efficient and effective manner
- c) Operations are properly accounted for
- d) Funds and assets are safe guarded against:
 - ◆ Fraud
 - ◆ Error
 - ◆ Waste
 - ◆ Poor value for money
- e) Risks are identified, recorded and managed effectively.
- f) Continuous service improvement is achieved through Best Value and the Comprehensive Performance Assessment. (CPA)
- g) The underlying principles of good governance are complied with.
- h) The Statement of Internal Control is adequately supported by appropriate and timely evidence.

3. STAFF ESTABLISHMENT

3.1 The Internal Audit Section presently consists of six posts.

- ◆ Head of Internal Audit
- ◆ 2 x Principal Auditors
- ◆ 2 x Auditors
- ◆ Assistant auditor

3.2 The Internal Audit Section reports to the Director of Strategic Resources.

4. STRATEGIC AUDIT PLAN

4.1 It is important for Internal Audit to plan effectively to ensure that a positive contribution is made to the Council's objectives at strategic and operational levels. Planning also enables Internal Audit to demonstrate both internally and externally that they are making best use of scarce resources.

Appropriate controlling and recording mechanisms are required to monitor plans in order to identify deviations early and collect evidence to substantiate findings that need to be reported.

- 4.2 Historically, Internal Audit has produced a strategic audit plan that attempts to identify the audit environment and then, on a cyclical basis, determined over what period of time every part of the audit environment is subjected to an audit review. For example, a risk assessment would determine which systems would be audited on an annual basis, which would be audited every two years, and so on. Increasingly this approach is losing favour and being replaced by continuous planning. Some authorities have moved to an in-year assessment of risk that effectively makes a strategic (say, five-year) plan redundant. In short, unless the subject of an audit review is considered to be a key risk, there is little point in planning to provide audit coverage in three or four years' time. However, to fully achieve this there needs to be a definitive link between the Council's Corporate Plan, its business plans, performance plan and risk register.
- 4.3 Risk based internal audit has developed in response to the revised corporate governance demands and developments in risk management. More importantly the focus of internal audit has changed fundamentally in recent years and its role and planning process must now embrace the provision of independent assurances over risk management (in other words - that risk exposure is understood and managed to an acceptable level). In fulfilling this role Internal Audit must methodically review and provide an opinion on the:
- ◆ Design and operation of the risk management process
 - ◆ Responses adopted to reduce risks to an acceptable level
 - ◆ Adequacy and effectiveness of the system of internal control in sufficiently mitigating risks.

The delivery of this assurance provides management with important evidence from which to confidently base their disclosures within the Statement on Internal Control.

- 4.4 The further development and strengthening of business planning throughout the Authority during 2006/07 including the establishment of tangible links to the Authority's corporate priorities; the further embedding of risk management and review of the audit environment has established a definitive link between internal audit activity, business planning, risk management and the corporate performance plan. This has enabled internal audit to develop a much more robust audit risk matrix based on a number of appropriate criteria which have been used to develop the annual audit strategy and annual audit plan.
- 4.5 The Head of Internal Audit presented a reviewed Audit Strategy for approval by the Audit Overview Committee at the meeting held on the 28th March 2007. However, the Audit Strategy and the Audit Charter have both been reviewed to ensure compliance with the new Code of Practice for Internal Audit in Local Government in the United Kingdom which has recently been published. These are attached at Appendix A and B
- 4.6 The Strategic Audit plan is regularly updated as new initiatives are identified. Risks are now being carefully monitored by Services and periodically reviewed, either quarterly, half yearly or annually depending on whether risks are high, medium or low. Internal audit use risks identified in business plans; and the Council's risk register to inform the audit process. Risks are also reviewed as part of the pre audit process via control risk self assessment forms. The audit risk matrix is also reviewed at the end of each audit and fed back into the risk register where appropriate. The audit environment will be reviewed annually and will be subject to a full risk review. Where appropriate results will not only be used to update the audit risk matrix but will also be fed back into the Council's risk register.

- 4.7 Working closely with the Audit Commission and to ensure compliance with new International Auditing Standards, The Head of Internal Audit has identified all systems that are considered to be business critical (these are highlighted in the Audit Plan) These systems will be reviewed on an annual basis. (see 5.10)
- 4.8 The control risk self assessment forms introduced in 2005/06 have been simplified for 2007/08 and will be completed by internal audit on behalf of Heads of Service and Senior Line managers. The control risk self assessment forms will continue to be reviewed at the pre audit meeting and will improve and inform the audit process.
- 4.9 All areas of audit activity identified as low risk have been removed from the audit plan. However, all auditable areas will be subject to a risk review on an annual basis and depending upon circumstances some areas identified as low risk may be subject to audit in the future.

5. 2006/2007 ANNUAL PLAN OUT-TURN

- 5.1 The annual plan translates the strategic plan into a schedule of audit assignments to be carried out during the period. It defines the purpose and duration of each audit assignment and allocates staff and other resources accordingly. Extensive consultation with the Chief Executive, the Executive Director, Heads of Service and line managers assists the Head of Internal Audit in determining priorities for the year. Consultation with the Audit Commission prevents duplication of effort.
- 5.2 Audit assignments are distributed evenly to the Principal Auditors on a quarterly basis. Each Principal Auditor will then distribute assignments to audit teams as required. Verbal instructions on the task to be undertaken are given together with the number of audit days allocated for the task. An opportunity exists at the research stage of the audit process to challenge the number of days allocated for the task, and this will be reviewed and amended by the Head of Internal Audit where appropriate
- 5.3 A pre-audit meeting with the Senior line manager of the relevant Service will highlight any problems that may be encountered during the audit, will allow them to challenge key controls identified by the auditor, identify any major business risks and assist the auditor in documenting the system in operation. Information gathered at this stage of the process will determine the level of testing to be carried out.
- 5.4 The Head of Internal Audit will ensure that details of all jobs issued are recorded in the audit plan control, and will monitor progress via regular team briefings. Details of any delays in the audit process are recorded and will be reported to the Audit Overview Committee where appropriate.
- 5.5 All tasks undertaken are recorded on daily timesheets which at the end of each month are used to update the Audit Plan summary which measures the performance of the Audit section against the targets set out in the audit plan. Progress on the audit plan will be reported on a quarterly basis to the Audit Overview Committee.
- 5.6 The Council has a legal responsibility under the 2006 Accounts and Audit Regulations to establish and maintain adequate systems of corporate governance and internal control. Internal Audit is a fundamental part of these arrangements and CIPFA's Code of Practice for Internal Audit sets out the professional standards that should be applied.
- 5.7 Annually the Audit Commission will also assess the performance of the Internal Audit provision to ensure that:-
 - ◆ Internal Audit's programme is risk based and covers all of the expected areas

- ◆ Working practices comply with CIPFA standards
- ◆ The agreed work programme has been delivered
- ◆ Computer audit coverage is satisfactory

- 5.8 Part of the requirements of the Accounts and Audit Regulations 2006 is for an independent review of Internal Audit and the functions of the Audit Overview Committee to be carried out on an annual basis. A sub group of the Council's Statement of Internal Control group undertook this task for the financial period 2006/07. A report showing the results of this review was submitted to a special meeting of the Audit Overview Committee on the 26th April 2007 and was approved subject to some minor amendments.
- 5.9 The original Audit Plan for 2006/07 was based on a total of 580 available audit days, with a further 40 days dedicated to follow up work. The plan was intended to cover 63 specific assignments over the year.
- 5.10 The main financial systems pose the greatest risk to the Council of losses through fraud, and consequently will always attract greatest priority. At the audit planning stage each year the Head of Internal Audit is required to agree a list of business critical systems with the Audit Commission for which they require assurance that risks material to the achievement of the control objectives are being adequately managed. This agreement for 2006/2007 covered 11 audit assignments, details of which are highlighted at Appendix C.
- 5.11 In the period 1st April 2006 to the 31st March 2007, the following work was undertaken and compares to the plan as shown below:

Annual Plan Audit Days		Cumulative Planned Audit Days	Cumulative Actual Audit Days	Variance Audit Days
446.00	Non productive time	446.00	517.47	71.47
223.00	Management & Admin (non chargeable)	223.00	232.47	9.47
91.00	Management & Admin (chargeable)	91.00	71.26	(19.74)
40.00	Follow ups	40.00	20.89	(19.11)
580.00	2006/2007 Audit Plan	580.00	444.52	(135.48)
180.00	Contingencies & Special Investigations	180.00	178.77	(1.23)
1560.00	Total	1560.00	1465.37	(94.63)

A more detailed analysis is given in Appendix C

- 5.12 The original 2006/2007 Audit Plan is comprised of 63 specific audit assignments. At the 31st March 2007, 43 assignments (68%) had been completed of which 3 were at draft stage. Testing was still being carried out on a further 4 assignments which were nearing completion, and these together with the 3 assignments at draft stage will be carried forward for completion in 2007/2008.
- 5.13 Of the 11 assignments covering the main financial systems 8 have been completed (1 to draft stage) The final 3 main financial systems are nearing completion and will be carried forward to 2007/2008 as shown in 5.12.

- 5.14 This means that 47 audit assignments will be completed in 2006/2007, (this includes assignments carried forward into 2007/08 for completion) compared to 44 in 2004/05. an increase of 3. The percentage of audit assignments completed in relation to the original plan for 2006/2007 is 75% compared to 55% in 2005/2006 and 72% in 2004/05.
- 5.15 The number of audit days spent on audit assignments in 2006/2007 was 444.52 (76.64%) compared to 2005/2006 when it was 542.75 (86.77%) However the 2005/2006 figure included an additional 60 audit days arising from the appointment of an Agency Worker to cover long term sickness. Due to the limited success that we have had with Agency Workers in the past it was decided not to appoint any cover for sickness absences or vacancies occurring in 2006/2007.
- 5.16 Internal Audit has previously set itself a target of achieving 90% of the original audit plan in recent years. This target was originally set by the Audit Commission in its Auditor Judgement in 2003. This target was not included in the Use of Resources Assessment, which replaced the Audit Judgement during 2005/06, as it was widely felt to be unachievable. As this Section aspires to set itself very challenging targets, it retained the 90% target for 2006/07. The Internal Audit Section did not meet this target in 2006/2007 for the following reasons:
- ◆ The shortfall of 94.63 audit days shown in the above table is a direct result of a vacant post between 23/10/06 and 18/02/07.as previously reported.
 - ◆ 124.1 days over budget in respect of high levels of sickness within the section over the last year reduces the amount of time that can be spent on audit assignments.
 - ◆ 41.13 days over budget for audit planning and supervision. Time spent by the Head of Internal Audit in reviewing audit assignments has traditionally been charged to audit planning and supervision. Due to the technical nature of some of these assignments the time spent reviewing work is increasing and this will be included as part of the main core audit work in future years. Principal auditors have also charged some supervisory work to this heading when it would be more appropriate to include this as “other training”
 - ◆ Exceeding general Administration by 33.70 days. The long term sickness of one member of staff has resulted in additional time being charged to general administration due to the nature of the illness, and the need to adequately support the officer on his return to work. This will also effect the general administration heading for 2007/2008.
 - ◆ Internal Audit as part of the 2007/2008 audit plan set more achievable targets with a much more flexible approach. I am confident that with a full compliment of staff a target of 90% (of the number of audits) is achievable in 2007/08.
- 5.17 On the basis of our work carried out in 2006/2007 as Head of Internal Audit I am satisfied that:-
- ◆ Outputs from all of the business critical systems agreed with the audit commission at the start of 2006/2007 can generally be relied upon for opinion purposes. This coupled with the comprehensive assurance statements received from all Heads of Service for those areas not subject to internal audit review, and evidence from the Use of Resources judgement and reports from external stakeholders lead to an opinion that given the nature of the risks involved in the achievement of the control objectives key controls can be considered to be adequate, and provide reasonable assurance that risks material to the achievement of the control objectives are operating effectively

- ◆ Policies and procedures in place to prevent and detect fraud and corruption are sufficient. Any reports of any instances of fraud or corruption during the last twelve months have been dealt with quickly and effectively in accordance with the Council's approved fraud and corruption policy and fraud response plan
- ◆ Corporate governance arrangements are considered to be adequate under the existing framework. However, it is widely expected that revised guidelines for governance arrangements are expected shortly and the Council will review its framework appropriately once these have been published.
- ◆ The Council have made significant progress with its risk management processes during 2006/07, with extensive risk management training being carried out on three levels, coupled with the further development of the Council's software based risk register.
- ◆ Written procedure notes for all business critical systems have now been developed, and services will work hard in keeping these relevant and up to date.

Key achievements

- 5.20 Despite the considerable challenges faced, in 2006/2007, Internal Audit continues to improve its efficiency and the quality of the work undertaken. The Audit section continues to meet all Audit Commission requirements and incorporates "Best Practice" in all of its activities.
- 5.21 Internal Audit has moved to a more risk based approach in line with the latest CIFPA guidance.
- 5.22 The section continues to work closely with senior managers and working relationships in this regard has continued to be favourable over the last twelve months.
- 5.23 There has been a sustained increase in the number of requests for advice and guidance, together with a willingness on the part of Heads of Service to now include internal audit at an early stage in new system development.
- 5.24 Results from post audit questionnaires, the annual client survey, and review of the section in line with the Accounts and Audit Regulations 2006 show that the section has improved over the last twelve months.
- 5.25 The number of audits carried out in 2006/2007 has increased, despite the vacant post and the long term absence due to sickness.
- 5.26 During 2006/2007 Internal audit has continued to examine its processes and methodology to increase efficiency and ensure value for money.

The internal audit section continues to be proactive and responsive to management in meeting their requirements. A change of emphasis from Heads of Service towards inclusion at the pre audit stage is to be welcomed.

The development of a more flexible audit plan will mean that internal audit can respond quickly to any concerns raised by Heads of Service

- 5.27 The section will continue to review and amend policies and procedures where appropriate and at least annually. This will include the following:-
- ◆ Fraud and corruption policy (revised)
 - ◆ Confidential reporting policy. (revised)

- ◆ Fraud Response Plan (revised)
- ◆ Surveillance Policy (revised)
- ◆ Retention and Disposal of documents

5.28 The section will continue to challenge its performance through the continued use of performance management initiatives. This will include:-

- a) Continued use of post audit questionnaires
- b) Proactive consultation with line managers, senior management, Audit Commission and Members.
- c) The use of an annual client survey.
- d) Benchmarking against other internal audit sections within the district.

5.29 The following local performance indicators for the period 1st April 2006 to the 31st March 2007 are shown below:-

Number of audits undertaken and completed	47
Number of recommendations made	196
Number of recommendations agreed	196
Number of recommendations not agreed	Nil
Number of recommendations partly agreed	Nil
Number of recommendations implemented since 1.4.06 (some relate to audits carried out in previous years)	116
% of Audit Plan completed (number of audits)	75%
% number of draft reports issued within 10 working days of closure meeting	73%
% number of final reports issued within 5 working days of the post audit meeting	82.5%
% number of recommendation action plans signed off and returned within 5 working days of issue	31%
% number of Post Audit questionnaires returned	93%

There are no recommendations partly agreed.

There are no instances of recommendations not being agreed.

6. The 2007/2008 Annual Audit Plan progress report for the 1/04/07 to the 31/05/07

6.1 Introduction

6.1.1 This will compare the actual work undertaken by Internal Audit with that planned for the period 1st April 2007 to the 31st May 2007.

6.2 Progress report

6.2.1 In the period 1st April 2007 to the 31st May 2007, the following work was undertaken and compares to the plan as shown below:

Annual Plan Audit Days		Cumulative Planned Audit Days	Cumulative Actual Audit Days	Variance Audit Days
460.00	Non productive time	90.67	78.27	(12.40)
244.00	Management & Admin (non chargeable)	40.67	73.80	33.13
87.00	Management & Admin (chargeable)	14.50	7.27	7.23
580.00	2006/2007 Audit Plan	98.00	46.63	(51.37)
155.00	Contingencies & Special Investigations	25.83	44.53	18.70
40.00	Follow ups	6.67	8.67	2.00
1566.00	Total	276.33	259.17	(17.16)

A more detailed analysis is given in Appendix D.

6.2.2 The 2007/2008 Audit Plan comprises 52 audit assignments, although assurance on one of these assignments (Inprint 08/52) will be provided by Derwentside District Council's Audit Team who are the lead authority for this partnership. Also as in 2006/2007 penetration testing of the Council's IT network (08/28) will be carried out by an external company as currently the Internal Audit team do not have the required expertise for this.

6.2.3 The difference between the total cumulative days planned compared to the cumulative actual is a result of phasing and flexi leave.

6.2.4 At the 31.5.07, 6 audits have been completed of which 2 were at the draft state. The lack of progress in respect of the 2007/2008 plan is largely as a result of additional work being undertaken in respect of the sickness audit, examination leave, and the completion of other audit assignments brought forward from 2006/07. Some services have also requested that planned work be delayed until the last month of the quarter due to operational difficulties. A complete review of follow ups was carried out to offset this.

6.2.5 Of the seven audit assignments brought forward for completion in 2007/08, all have now been fully completed. The number of audit days required to carry out all of this work totals 22.30 audit days a significant reduction from the previous year.(60 audit days) It was estimated that this additional work would be no greater than 11 audit days, but additional work was required on sickness and debtors. This has been taken from the contingency provision.

6.2.6 The following local performance indicators for the period 1st April 2007 to the 31st May 2007 are shown below:-

Number of audits undertaken and completed	6 (2 at draft)
Number of recommendations made	8
Number of recommendations agreed	8
Number of recommendations not agreed	Nil
Number of recommendations partly agreed	Nil

Number of recommendations implemented since 1.4.07 (some relate to audits carried out in previous years)	141
% of Audit Plan completed (number of audits)	11.5%
% number of draft reports issued within 10 working days of closure meeting	100%
% number of final reports issued within 5 working days of the post audit meeting	100%
% number of recommendation action plans signed off and returned within 5 working days of issue	Nil
% number of Post Audit questionnaires returned	50%

7. ANNUAL AUDIT & INSPECTION PLAN 2007/08

The above report from the Audit Commission is attached at Appendix E.

8. ANNUAL AUDIT & INSPECTION LETTER 2006

The above report from the Audit Commission is attached at Appendix F.

9. USE OF RESOURCES AUDITOR JUDGEMENTS 2006

The above report from the Audit Commission is attached at Appendix G.

10. AUDIT OVERVIEW APPOINTMENT OF INDEPENDENT MEMBER

Council has agreed to appoint one independent member to this Committee. I will advertise and report on applications received in due course.

11. RECOMMENDATIONS

- ◆ That the action taken in respect of the 2006/2007 Audit Plan be approved.
- ◆ That the Audit Overview Committee note the contents of the Progress Report for the 1st April 2007 to the 31st May 2008.
- ◆ That the Audit Strategy and Audit Charter be approved.
- ◆ That the Annual Audit & Inspection Plan be approved.
- ◆ That the Audit Overview Committee accept the reports, the Annual Audit & Inspection Letter 2006 and the Annual Auditor Judgement 2006.
- ◆ That the proposals of the appointment of one independent member be noted.

CITY OF DURHAM COUNCIL



AUDIT STRATEGY 2007/2008

**PREPARED BY:
INTERNAL AUDIT DIVISION**

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Introduction

City of Durham District Council, like all organisations providing services to the public, relies on systems that balance flexibility with appropriate internal control. This allows the Council to manage resources to meet corporate, strategic and service objectives, to ensure accountability and minimise the risk of fraud.

The Council has statutory obligations and is responsible for the proper stewardship of public money. It must therefore ensure that the highest standards of corporate governance are maintained; that appropriate risk management processes are in place to identify and control its major risks and that an effective financial and operational control framework is in place.

The Council is responsible for maintaining an adequate and effective Internal Audit function under the Accounts and Audit Regulations 2003 (amended)

Internal audit is defined as being **“an assurance function that provides an independent and objective opinion to the Council on the control environment by evaluating its effectiveness in achieving the Council’s objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.”**
(Source Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Local Government Internal Audit 2006)

Internal Audit helps to provide assurance that Council assets and resources are correctly applied and used wisely.

The Internal Audit service at City of Durham Council will be provided substantially In-House, although the Council may seek to outsource some parts of the service where specialist skills or knowledge is required and it is not practical or cost effective for the In-House team to provide them. Consultation with key partners will also be carried out to determine whether required assurances can be provided by their own audit team or whether such assurance work will need to be undertaken by the City of Durham Audit Team.

The Head of Internal Audit will prepare an annual audit strategy which is the high level statement of how the internal audit service will be delivered and developed in accordance with its terms of reference (Audit Charter) and how this links to the Council’s objectives and priorities. The audit strategy will inform the Councils risk based annual audit plan.

Internal Audit’s mission is to support the Council, its management and staff in the achievement of high standards of service delivery, conduct, governance and risk management and help ensure that resources are safeguarded from fraud and corruption.

It achieves this by:-

- Providing an independent opinion on the effectiveness of the Council's financial, operational, risk management, governance and control framework

- conducting risk based reviews of all internal systems within the Council, reporting to managers on their effectiveness and making recommendations for improvement where appropriate
- advising on the adequacy and effectiveness of controls in new and developing systems
- providing a challenge and assurance role with regard to Best Value and Performance Improvement Reviews undertaken by the Council
- advising on the prevention and detection of fraud and investigating where suspected fraud or irregularity has been identified or brought to our attention

The Council's External Auditors, the Audit Commission, examine the work of Internal Audit on an annual basis, and seek to place reliance on that work when they come to audit the Council's financial statement of accounts.

1. Scope and Service Priorities

The main determinant of the effectiveness of Internal Audit is that it is seen to be independent. To ensure this, Internal Audit will operate within a framework that allows:

- Unrestricted access to senior management
- Reporting in its own name
- Segregation from line operations

Every effort will be made to preserve objectivity by ensuring that all internal audit staff are free from any conflicts of interest and do not undertake any non – audit duties, with the exception of risk management and other high priority duties and the urgent needs of the service.

All Internal Audit activity is carried out in accordance with financial procedure rules, with specific authority for audit, and risk management contained in Financial regulation C2 - C11, Financial procedure note C 3.01 - 3.13 and Financial procedure note C 3.23 - 3.34.

2. Objectives of Internal Audit

The Internal Audit Section provides:-

- The Chief Executive, the Director of Strategic Resources (Section 151 officer), Heads of Service, Directors and elected members with information regarding the operation of controls over the accuracy, propriety, accountability and efficiency of the Authority's operations and control environment.
- The section 151 officer with the assurances required to discharge his/her responsibilities
- An assurance to Managers and elected members regarding compliance with the Authority's corporate procedures and the Council's policies and objectives
- A service to managers and elected members appraising them of the adequacy and effectiveness of the established internal control mechanisms.

The existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure,

efficient and well-ordered manner. Internal Audit is not an extension of or a substitute for the functions of line management. Responsibility for internal control rests fully with line managers, who should ensure that arrangements are appropriate and adequate.

3.Scope of Internal Audit

To achieve full effectiveness the Internal Audit function should provide an unrestricted range of coverage of the Council's operations, and the Internal Auditor should have sufficient authority to allow access to such records, assets and personnel as are necessary for proper fulfilment of responsibilities.

In accordance with the Council's financial procedure rules and contract procedure rules, Internal Audit shall have authority to:

- *Enter at all reasonable times any Council premises or land*
- *Have access to all assets, records, documents correspondence and control systems relating to any financial and other transactions of the Council*
- *Require and receive such explanations and information as appear to them to be necessary concerning any matter under examination*
- *Require any employee of the Council to account for cash, stores or any other Authority Asset under his or her control*
- *Access records belonging to third parties, such as contractors when required*
- *Directly access the Chief Executive, the Cabinet and the Audit Overview Committee*

Any interference with this right will be deemed to be a breach of organisational procedure and dealt with accordingly.

4. Service Outputs

For planned work service outputs are detailed reports arising from reviews of the whole system of internal control, financial and otherwise, containing recommendations which help to:

- Develop key management, financial and information systems.
- Secure value for money
- Review performance
- Ensure adherence to legislative requirements, management policies and directives
- Ensure compliance with best practice and where relevant CPA requirements
- Safeguard assets
- Ensure completeness and accuracy of records
- Secure the effectiveness, economy and efficiency in the use of resources.
- Ensure the reliability and integrity of information.
- Review of risk management, Corporate Governance and Fraud and Corruption processes

For irregularity work service outputs are:

Comprehensive fraud prevention measures and raised awareness of the special responsibility the Council has for maintaining the highest possible standards in its management of public funds. In particular, this involves:

- Monitoring compliance with Standing Orders and Financial Regulations.
- Co-ordinating corporate fraud prevention action.
- Investigating reported irregularities and supporting any Police enquiries.
- Co-ordinating participation in local and national anti-fraud initiatives.
- Providing immediate notification of frauds reported elsewhere together with advice on avoidance measures.

For unplanned and ad-hoc work service outputs are:

- Advice and assistance during the development of current corporate initiatives.
- Other general advice and assistance to officers throughout the Council, regarding best practice, probity issues, systems development and internal control. Areas of best practice are communicated to Members and Service Managers through the issue of reports and notification of work carried out by the Audit Commission, and other Government Agencies that may help them improve the services they provide.

5. The Planning Process

The level of internal audit resources required to examine all of the Council's activities exceed those available each year. It is, therefore, essential that the work of Internal Audit be properly planned to ensure the maximum benefit is gained from the independent appraisal function which internal audit provides.

Resources must be appropriately targeted by assessing the Council's total audit needs and preparing a plan that ensures systems are reviewed according to associated risk, materiality and the level to which the organisation depends on them.

An annual audit plan, covering the 2007/2008 financial year will be drawn up to reflect areas identified as being of risk to the Council, and to provide External Audit with the assurance that they require on agreed business critical systems. The plan will however, retain enough flexibility to respond to changes in the priorities of officers and Members, as risks increase, are mitigated or emerge.

All potential audit areas will be scored using a risk based model which will include reference to the use of control risk self assessment forms, operational risks identified in business plans and other risks identified through the authority's risk register. All business critical systems which have been agreed with the External Auditor and areas which are identified as high risk will be subject to annual review. Systems assessed as medium risk will be reviewed as part of a rolling program as resources allow. Low risk areas will be removed from the audit plan altogether, but will be subject to an annual risk assessment.

The strategic plan will be regarded as flexible, rather than as an expression of rigid audit policy.

The strategic plan will be translated into annual plans for formal agreement with the Director of Strategic Resources, Officer's Management Team and the Audit Overview Committee.

The overall results of audit work will be reported quarterly to the Director of Strategic Resources and the Audit Overview Committee.

The Head of Internal Audit will ensure a system of close supervision of audit work and will maintain a review of all audit files.

Internal Audit will also seek to respond quickly to requests for investigation into matters of fraud, probity and compliance (that are the responsibility of clients)

Internal Audit is not an extension of or a substitute for the functions of line management. Responsibility for internal control rests fully with line managers, who should ensure that arrangements are appropriate and adequate.

In order to establish an audit presence and to create sound informal lines of communication, as much audit work as possible will be done on location.

6. Statement on Internal Control

The outcome of the audits within this year's plan will inform the Head of Internal Audit's overall opinion on the adequacy of the Council's system of internal control, which will then feed into the Council's Statement on Internal Control (SIC).

Internal Audit is one of a number of areas of assurance that contribute to the Council's Assurance Framework. The Accounts and Audit Regulations 2003 (amended) for local government bodies in England require a SIC to be published as part of the statement of accounts. The SIC is required to include the following disclosures:

- acknowledgement of the authority's responsibility for ensuring that a sound system of internal control is maintained.
- an explanation that the system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve the organisations policies, aims and objectives.
- reference to the ongoing risk management process designed to identify and prioritise the risks to the achievement of these policies aims and objectives.
- confirmation that the system of internal control was in place for the duration of the financial year.
- An independent review of the work of the Internal Audit Service including a review of the effectiveness of the Audit Overview Committee. This review will be carried out by agreed representatives from the Statement of Internal Control working group. The review will be the subject of a formal report which must be reported to and agreed by the Audit Overview Committee
- a description of the key elements of the internal control environment. The authority's responsibility for reviewing the effectiveness of the system of internal control and a description of the review process undertaken.
- confirmation that the authority has discussed the results of the review with the relevant committee.

- where appropriate, details of actions taken, or proposed, to deal with significant internal control issues.

The SIC must be seen as a Council wide document and not just the responsibility of the Section 151 Officer or the Head of Internal Audit. Information is sought from the Monitoring Officer, the Chief Executive, the Executive Director, Heads of Service and Line managers including those responsible for Performance Management to ensure that all issues affecting the Council are identified and evaluated. The SIC is agreed by OMT before being reviewed and approved by the Audit Overview Committee and then by Council.

The Leader of the Council, the Mayor, the Chief Executive and the Section 151 Officer then sign off the SIC, before it is published with the Council's statement of accounts.

7. CPA Use of Resources Assessment

Internal Control is one of the key areas within the Comprehensive Performance Assessment (CPA) Use of Resources assessment. The framework, evidence and documentation that supports the SIC will be reviewed as part of that assessment by the External Auditor as it features in a number of the Key Lines of Enquiry (KLOE). Internal Audit also contributes to a number of other KLOEs within both the assessment of internal control and other categories. We also aim to ensure that, where appropriate, CPA requirements for service areas are incorporated into our audit scope to reflect changing priorities.

8. Audit Committee

“The purpose of an audit committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority’s financial and non-financial performance to the extent that it affects the authority’s exposure to risk and weakens the control environment; and to oversee the financial reporting process.” (Source CIPFA Audit Committees: Practical Guidance For Local Authorities)

Audit Committees are not just the concern of auditors; they are about the governance, financial reporting and financial performance of the whole authority. Effective corporate governance depends, in part, on a systematic strategy, framework and processes for managing risk. Governance is also about increasing public confidence in the objectivity and fairness of financial and other reporting. This in turn depends upon assurance that issues raised in preparing and auditing annual accounts and other reports have been dealt with. It is important that local authorities have independent assurance about the mechanisms underpinning these aspects of governance. The existence of an independent and effective audit committee helps to convey to staff and the public the importance Members and Officers attach to internal control.

City of Durham Council has adopted best practice in implementing an Audit Committee. This committee is independent of both the Executive and Scrutiny function, and reports directly to the Council on matters it feels are relevant.

Terms of reference have been drawn up for the committee which encompass the recommendations and guidance issued by CIPFA. These terms of reference set out the

following main responsibilities of the Audit Overview Committee.

◆ **Audit Activity**

- To consider the Head of Internal Audit's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements
- To consider summaries of specific internal audit reports as requested
- To consider reports dealing with the management and performance of the providers of internal audit services
- To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale
- To consider the external auditor's annual letter, relevant reports and the report to those charged with governance
- To consider specific reports as agreed with the external auditor
- To comment on the scope and depth of external audit work and to ensure it gives value for money
- To liaise with the Audit Commission over the appointment of the Council's external auditor
- To commission work from internal and external audit

◆ **Regulatory Framework**

- To maintain an overview of the Council's Constitution in respect of contract procedure rules, financial regulations and code of conduct and behaviour in these matters
- To review any issue referred to it by the Chief Executive or a Director or any council body
- To monitor the effective development and operation of risk management and corporate governance in the Council
- To monitor Council policies on 'Raising Concerns at Work; and the anti-fraud and anti-corruption strategy and the Council's complaints process
- To oversee the production of the authority's Statement of Internal Control and to recommend its adopted
- To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice
- To consider the Council's compliance with its own and other published standards and controls

◆ **Accounts**

- To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council

- To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts

9. Fraud and Corruption

Unfortunately, fraud and corruption is an increasing issue nationally. Responsibility for prevention and detection rests with Management, but Internal Audit will identify high-risk areas, test for existence of fraud and recommend improved internal controls where necessary. Internal Audit will promote an anti-fraud culture and encourage staff to raise legitimate concerns with the confidence that they will be fully investigated. Information on frauds elsewhere will be disseminated and audit staff will consider whether procedures are operating which would prevent these particular activities occurring in this Council. Internal audit will make use of computer audit techniques to compare and test data across different systems, and will co-operate and work closely with the Council's nominated co-ordinator involving national data matching exercises, enabling the Council to identify and tackle any problems with fraud.

The Council have a separate highly skilled specialist Housing Benefit Fraud team.

Managers should establish and maintain an adequate system of internal control to enable them to discharge their responsibility. Internal Audit's role is to evaluate the adequacy and effectiveness of the internal controls designed to secure assets and data and to assist management in preventing and deterring fraud and abuse

City of Durham Council promotes an anti-fraud and corruption environment, and details of Internal Audit's role in fraud investigation and prosecution are clearly laid down in the Council's anti-fraud and corruption policy.

The role of Internal Audit, Directors, Heads of Service, senior line managers and the Monitoring Officer in the investigation of fraud and corruption is clearly laid down in the Council's Fraud Response Plan

The Council also operates a confidential reporting policy (whistleblowers charter) in line with the Public Interest Disclosure Act 1998 and the Nolan Committee report.

The Fraud and Corruption Policy and associated guidelines and the Confidential Reporting Policy have been communicated to all staff via "Communication Matters" and are widely available on Sharepoint and the Council's website.

10. Service Standards

The Council recognises and formally adopts the C.I.P.F.A. statements and code of practice for Internal Audit in Local Government as appropriate standards by which the role and status of the internal audit section can be measured.

It provides a quality, professional internal audit review service which helps the Council discharge its statutory duties regarding accountability, securing value for money and the application of high standards of Corporate Governance in the stewardship of public funds. Adopting a constructive and supportive approach by working in partnership with officers throughout the Council, Internal Audit also promote good management practice and helps ensure that the Council's corporate policies and objectives are being realised.

11. Quality Standards

City of Durham Internal Audit Service will undertake audit assignments with competence, diligence, integrity and objectivity utilising skills and judgement developed through experience and training.

All issues either reported or found will be pursued in an impartial and objective way in order to provide a reliable audit opinion.

They will encourage approaches from Members and Officers regarding any matters of concern, or simply to obtain advice and assistance and will fully involve Services in order to develop dynamic strategic and operational plans that are relevant to their needs and recognise service priorities.

Assignments will be planned and conducted in accordance with the CIPFA Code of Practice on Local Government Internal Audit.

Heads of Service and/or Line Managers will be fully briefed, prior to commencing each audit review, concerning the objectives and scope of the work involved and will be invited to review existing operational risks and identify particular matters of concern where the Council would benefit from an independent evaluation.

Internal Audit will continue to use a risk-based approach.

In the production of reports and recommendations for improvement internal audit will emphasise areas which are working effectively in a positive manner, as well as areas where improvements can be made and will endeavour to take account of the culture of Business Units and Teams; available resources and possible constraints when making recommendations.

Major findings will be brought to the attention of Line Managers at the conclusion of audit testing at the closure meeting. This will ensure that Line Managers can openly discuss misunderstandings, differences of opinion etc before the production of the draft report.

The draft report will be submitted to Heads of Service and Line Managers concerned for all audit assignments and will be considered to be a discussion document. Matters of wording and emphasis can be discussed and agreed upon at the post audit meeting before the issue of the final report. Mutual agreement on recommendations can also be achieved.

A recommendation action plan will be included in all reports, and will categorise recommendations according to risk (High, medium and low) incorporating agreed implementation dates for the recommendations made.

All recommendations. will be subject to a formal review process to ensure timely implementation

All enquiries concerning suspected fraud or malpractice will be dealt with immediately.

Close working relationships with the External Auditor will be sought to eliminate any duplication of effort, ensure a cost effective audit process, and minimise the demands on officer time

Standards of good practice will continue to be constantly monitored and communicated to all appropriate staff.

All information gathered in the course of any audit work will be treated with the utmost confidentiality

All Internal Audit staff will endeavour to be polite, courteous, helpful and understanding in the approach adopted.

Internal Audit are committed to the policies of the Council.

12. Feedback and Performance Measurement

The opinion of Members, Heads of Service, Line Managers and staff is highly valued as it enables Internal Audit to maintain high standards and quickly respond to changing client needs. Opportunities for feedback are provided through regular meetings with Heads of Service and Line Managers through the audit process and the issuing of Customer Feedback Forms that accompany final audit reports. These forms provide a means for clients to make constructive comments on the services received.

Feedback is also welcomed directly to the Internal Audit Manager regarding any audit work that has been completed, is in progress or is planned. We are also keen to assist where possible with queries regarding internal control issues and react to changes in priorities or additional pieces of work where there are new or increased risks.

The Head of Internal Audit will carry out an annual Client Survey to enable him to measure changes in performance that may affect the level of service delivery

13. Performance Indicators

A suite of performance indicators has been designed by the Head of Internal Audit and will be reported to OMT and the Audit Overview Committee on a quarterly basis

Where targets have been agreed, they will be reviewed at the end of the financial year and revised where appropriate.

Number of audits undertaken and completed

Number of recommendations made

Number of recommendations not agreed

Number of recommendations partly agreed

Number of recommendations agreed

Target

100%

Number of draft reports issued within 10 working days of closure meeting	100%
Number of final reports issued within 5 working days of the post audit meeting	100%
Number of recommendation action plans signed off and returned within 5 working days of issue	100%

14. Summary of Audit Opinions

Excellent	Given the nature of the risks involved in the achievement of the control objectives, key controls and other parts of the internal control system are working effectively and provides full assurance that risks material to the achievement of the control objectives are adequately managed.
Good	Given the nature of the risks involved in the achievement of the control objectives, key controls and most other parts of the internal control system are working effectively and provide substantial assurance that risks material to the achievement of the control objectives are adequately managed.
Satisfactory	Given the nature of the risks involved in the achievement of the control objectives, key controls are adequate, but other parts of the internal control system requires corrective action. This provides reasonable assurance that risks material to the achievement of the control objectives are adequately managed.
Needs Improvement	Given the nature of the risks involved in the achievement of the control objectives, neither the key controls or the other parts of the internal control system are working effectively, and some corrective action is needed in both areas. This provides only limited assurance that risks material to the achievement of the control objectives are adequately managed.
Unsatisfactory	Given the nature of the risks involved in the achievement of the control objectives, key controls and other parts of the internal control system are inadequate, and significant corrective action is required in both areas. This provides little or no assurance that risks material to the achievement of the control objectives are adequately managed

15. Definition of key controls

Key controls are those internal controls which are considered to be fundamental to the operation of the system, that is the most important and relevant controls which if operating correctly will give the auditor assurance that risks material to the achievement of the control objectives are adequately managed. Many key controls will be found in all systems, for example written procedure notes, division of duties, and reconciliation procedures; but some may be unique to one system alone eg full approval for a building control application cannot be granted until consultation responses are received.

CITY OF DURHAM COUNCIL



AUDIT CHARTER

**PREPARED BY:
INTERNAL AUDIT DIVISION**

Revised by P Jackson April 2007

<p>DURHAM CITY COUNCIL INTERNAL AUDIT SECTION</p> <p>AUDIT CHARTER</p>
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This audit charter sets out the purpose, authority and responsibilities of the internal audit function in accordance with Standard 1 of the Code of Practice for Internal Audit in Local government in The United Kingdom 2006. The Audit Charter was formally adopted by City of Durham Council. on the

1. Introduction

Internal Audit is a statutory function legislated for within the Accounts and Audit Regulations 1996 and the Local Government Finance Act 1982. In England, more specific requirements are detailed in the Accounts and Audit Regulations 2003 (amended), in that a relevant body must “maintain an adequate and effective system of internal audit of its accounting records and of its systems of financial control in accordance with proper practices in relation to internal control”.

For principal local authorities guidance accompanying the legislation states that proper internal audit practices are those contained within the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

The Council will seek to comply with the requirements set out in the Code, and where circumstances prevent full compliance, the Council should be able to demonstrate that equivalent safeguards or measures are in place.

The Code consists of eleven organisational and operational standards, which align with public sector internal audit standards:-

Organisational Standards

- The Scope of Internal Audit
- Independence
- Ethics for Internal auditors
- Audit Committees
- Relationships
- Staffing, Training and Continuing Professional Development

Operational standards

- Audit Strategy and Planning
- Undertaking Audit Work
- Due Professional Care
- Reporting
- Performance, Quality and Effectiveness

The Code requires Internal Audit to produce an approved audit strategy, which sets out how the service will be delivered and developed. The following terms of reference will be used to satisfy this requirement.

The overall strategy for internal audit is to:-

- Support the Director of Strategic Resources to discharge duties as the Proper Officer (Section 151)
- Deliver a planned programme of work in a professional, objective and independent manner.
- Provide an opinion on the level of assurance to be placed upon the internal control environment and thereby assisting in the production of the Statement on Internal Control
- Contribute to and support the Director of Strategic Resources and the Head of Financial Services objective, of ensuring the provision of and promoting the need for, sound financial systems.
- Support the Audit Overview Committee in discharging it's responsibilities
- Contribute to and support all Services in meeting the requirements of the CPA and the CPA Use of Resources Assessment and other KLOE's
- Provide a quality fraud investigation service, to assist in preventing and detecting fraud and abuse and which safeguards the public purse.
- Where necessary, make recommendations to improve the internal control environment

2. Location of Internal Audit

Internal Audit is located within Strategic Resources under direction of the Proper Officer, the Director of Strategic Resources at High Street, Durham.

3. Objectives of Internal Audit

Internal Audit is defined as “an assurance function that provides an independent and objective opinion on the control environment, established by management, by evaluating its effectiveness in achieving the Council's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper economic, efficient and effective use of resources”

The Internal Audit Section provides:-

- The Chief Executive, the Director of Strategic Resources (Section 151 officer), Heads of Service, Directors and elected members with information regarding the operation of controls over the accuracy, propriety, accountability and efficiency of the Authority's operations and control environment.
- The section 151 officer with the assurances required to discharge his/her responsibilities
- An assurance to Managers and elected members regarding compliance with the Authority's corporate procedures and the Council's policies and objectives
- A service to managers and elected members appraising them of the adequacy and effectiveness of the established internal control

mechanisms.

Every effort will be made to preserve objectivity by ensuring that all audit members of staff are free from any conflicts of interest and do not undertake any non – audit duties, with the exception of risk management and other high priority duties and the urgent needs of the service.

All Internal Audit activity is carried out in accordance with financial procedure rules, with specific authority for audit, and risk management contained in Financial regulation C2 - C11, Financial procedure note 3.01 - 3.22 and Financial procedure note 3.23 - 3.34.

The existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

4. Internal Audit responsibility

Internal Audit is given responsibility to evaluate organisational systems of internal control, and this includes examining and evaluating the whole system of internal controls established by management, and not just the financial control systems.

This evaluation of controls is done against an assessment of the risks facing the Council, to determine their adequacy, reliability and effectiveness and how well the responsibilities assigned to managers are being carried out in practice.

Internal Audit is an integral part of the Council's corporate governance framework. Internal Audit has no executive responsibility for systems of internal control other than to appraise their effectiveness with regard to the Council's objectives.

The main areas of Internal Audit responsibility within the authority are to:

a) Review appraise and report on:

- The completeness, suitability, reliability and integrity of information, both financial and operational, including aspects of performance management.
- The soundness, adequacy and application of internal controls
- The systems established to ensure compliance with policies, plans, procedures, laws and regulations, i.e. rules established by the management of the Council or externally.
- The means of safeguarding assets and interests from loss
- The economy, efficiency and effectiveness with which resources are employed,
- Whether operations are being carried out as planned and objectives and goals are being met
- The measures that the Council has in place to manage identified risks and recommending action that needs to be taken to control these risks more effectively

- The Council's commitment to delivering high quality, responsive services based on locally determined objectives through the Best Value process, and the Comprehensive Performance Assessment (CPA) in order to achieve continuous improvement
- The Council's ability to demonstrate that they are complying with the underlying principles of good governance (openness, integrity and accountability)

b) To ensure that the Council can demonstrate that systems and processes are monitored for their effectiveness in practice, and are subject to review on a continuing basis to ensure that they are up to date

c) Advise on internal control implications of new systems

d) Investigate all frauds and irregularities in accordance with the Council's Fraud and Corruption Policy and Fraud Response Plan

e) Manage and investigate housing benefit / council tax benefit fraud where appropriate either independently or in association with the Councils Housing Benefit Fraud team.

The responsibilities shown above recognise that Internal Audit's remit extends to the Council's entire control environment, and identifies Internal Audit's contribution to the review of the effectiveness of that control environment.

Internal Audit will annually review the Council's Corporate Governance arrangements and inform the Audit Commission and the Audit Overview Committee of their findings.

The Council recognises and formally adopts the C.I.P.F.A. statements and code of practice for Internal Audit in Local Government as appropriate standards by which the role and status of the internal audit section can be measured.

5. Independence

The main determinant of the effectiveness of Internal Audit is that it is seen to be independent. To ensure this, Internal Audit will operate within a framework that allows:

- Unrestricted access to senior management
- Reporting in its own name
- Segregation wherever possible from line operations and activities that form part of the Council's internal control process.

Internal Audit is required to provide an objective audit service in line with professional auditing standards. It is therefore, essential that sufficient independence is attached to this work through adequate scope, authority and objectivity

It is important that Internal Auditors are independent of the activities that they audit. Internal Auditors are independent when they carry out their work freely and objectively. Independence permits Internal Auditors to render impartial and unbiased judgements essential to the proper conduct of audits.

Objectivity is an independent mental attitude, which Internal Auditors should

maintain in performing audits. Internal Auditors must not subordinate their judgement on audit matters to that of others. Drafting procedures for systems, and designing, installing and operating systems are **not audit functions**. Performing such activities impairs audit objectivity and can have serious consequences concerning the adequacy and effectiveness of the administration of the Internal Audit function.

In order to maintain independence Internal Audit reports directly to the Director of Strategic resources and has the right of access to the Chief Executive and Chair of the Audit Overview Committee

6. Audit style and Content

The primary task of Internal Audit is to review the systems of internal control operating throughout the authority, and in this will adopt a predominantly systems based approach to audit.

The Head of Internal Audit will manage the provision of a complete audit service to the authority which will include systems, regularity, computer and contract audit in addition to the investigation of fraud and corruption.

The Head of Internal Audit will prepare an annual strategic risk based audit plan, which will be formulated by identifying all areas of auditable activity within the Council. (The audit environment) This will in turn inform the annual audit plan.

This will be achieved through consultation with:

- *Officer's Management Team*
- *The Chief Executive*
- *The Director of Strategic Resources*
- *Heads of service*
- *Directors*
- *The Audit Commission*
- *Members of the Council*

Using risk management techniques, each area of auditable activity will be individually assessed to determine the level of risk to the Council.

After each audit the level of risk will be re-evaluated, and the audit plan and audit risk matrix will be updated where appropriate.

The strategic plan will be regarded as flexible, rather than as an expression of rigid audit policy.

The strategic plan will be translated into annual plans for formal agreement with the Director of Strategic Resources, the Chief Executive, Executive Director, Heads of Service, Directors and the Audit Overview Committee.

Audit work will be planned according to the following criteria:-

- a) Areas where the Audit Commission require assurance (this will include main financial systems and business critical systems agreed with the audit commission at the audit planning stage each year)

- b) An agreed program of IT audit over a three year rolling programme.
- c) Ad hoc value for money work requested by services
- d) Assurance work required on an annual basis in respect of risk management, corporate governance and statement on internal control.
- e) Grant certification work and annual review of key performance indicators.
- f) Ad hoc requests from services in respect of areas of concern
- g) System review work prioritised according to risk

Internal Audit will perform the systems audits that are contained within this plan to the standards set out in its audit manual.

The work of Internal Audit will be reviewed and reported on a quarterly basis to the Director of Strategic Resources, Officers Management team (for information) and the Audit Overview Committee.

The Head of Internal Audit will ensure a system of close supervision of audit work and will maintain a review of all audit files.

Internal Audit will also seek to respond quickly to requests for investigation into matters of fraud, probity and compliance (that are the responsibility of clients)

Internal Audit is not an extension of or a substitute for the functions of line management. Responsibility for internal control rests fully with line managers, who should ensure that arrangements are appropriate and adequate.

In order to establish an audit presence and to create sound informal lines of communication, as much audit work as possible will be done on location.

7. Reports

All audit assignments will be the subject of formal reports.

Draft reports showing all findings will initially be communicated to the relevant service management responsible for the area under review, for discussion. At this stage any queries, disagreements etc. can be discussed and agreed upon.

Should the service manager and the auditor in charge fail to reach agreement at this stage, the auditor in charge will report back to the Head of Internal Audit who will arrange to discuss matters with the Head of Service.

Once a consensus has been reached the auditor will issue a final report which will be distributed to the relevant service manager, their Head of Service and the Director of Strategic Resources

It is for management to accept and implement internal audit findings and recommendations, or accept the risk resulting from not taking action.

It is the Head of Internal Audit's duty, however, to consider taking matters firstly to the Chief Executive or subsequently to the Audit Overview Committee if it is felt that the risk should not (or need not) be borne.

Management is expected to implement all agreed audit recommendations within a reasonable timeframe and each audit will be followed up to assess

the extent to which this has happened

Recommendations contained in audit reports will be prioritised according to their importance:

High

Medium

Low

The annual report to Audit Overview committee should include the following:-

- An opinion on the overall adequacy and effectiveness of the internal control environment
- A summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies
- Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the statement on internal control
- Compare the work actually undertaken with the work that was planned and summarise the performance against pre-determined performance measurement criteria.

8. Relationships

Internal audit will seek to establish mutual confidence and maintain constructive working relationships with managers, staff and elected members.

External Auditors acting on behalf of the Audit Commission are responsible for the annual certification of the Council's Accounts, grant claims, and inspection of the Performance Plan. They also carry out examinations of economy, efficiency and effectiveness in the use of resources by the Council. The Director of Strategic Resources will meet with the external auditor annually to agree their audit plan.

Co-operation between internal and external audit will be encouraged. This will involve periodic meetings to discuss matters of mutual interest, consultation on plans and involves access to each others working papers and reports to avoid duplication of effort.

9. Fraud investigation

Managers should establish and maintain an adequate system of internal control to enable them to discharge their responsibility. Internal Audit's role is to evaluate the adequacy and effectiveness of the internal controls designed to secure assets and data and to assist management in preventing and deterring fraud and abuse

City of Durham Council promotes an anti-fraud and corruption environment, and details of Internal Audit's role in fraud investigation and prosecution are clearly laid down in the Council's anti-fraud and corruption policy, fraud response plan and associated documents.

The role of Internal Audit, Heads of Service, Directors, senior managers and the Monitoring Officer in the investigation of fraud and corruption is clearly

laid down in the Council's Fraud Response Plan

Internal Audit will annually review the Council's Fraud and Corruption arrangements for a number of main financial systems and inform the audit commission and the Audit Overview Committee of their findings.

The Council also operates a confidential reporting policy (whistleblowers charter) in line with the Public Interest Disclosure Act 1998 and the Nolan Committee report.

10. Audit resources

Internal audit resources will be determined by the Head of Internal audit and will reflect the corporate needs and priorities of the Council. Resources will also reflect the requirements of the Director of Strategic resources to allow him/her to discharge his/her obligations as Section 151 Officer.

The staffing structure of the section will as far as possible comprise a suitable mix of qualified, experienced, technician and trainee posts

As far as is practicable, Internal Audit will not participate in the day to day operation of any systems of internal financial control. However, in strict emergency situations only, audit personnel may be called upon to carry out non audit work on a short life basis.

Members of the internal audit section will be expected to contribute to the general management and conduct of business through membership of working groups and participation in ad hoc exercises.

Upon the request of the Director of Strategic Resources, appropriate specialists from departments other than Finance should be made available to take part in any audit or review requiring specialist knowledge.

The Head of Internal Audit will periodically review the level of audit resources in consultation with the Director of Strategic Resources. Where a lack of resources in any way limits the scope of Internal Audit or prejudices the ability of Internal Audit to deliver a service consistent with the definition of internal audit this must be brought to the attention of the Audit Overview Committee for consideration.

11. Scope of Internal Audit

The scope of Internal Audit's remit includes the Council's entire control environment. In determining where resources should be concentrated, the Head of Internal Audit should take account of other assurance and monitoring mechanisms, including risk management and corporate governance arrangements for achieving the Council's objectives

To achieve full effectiveness the Internal Audit function should provide an unrestricted range of coverage of the Council's operations, and the Internal Auditor should have sufficient authority to allow access to such records, assets and personnel as are necessary for proper fulfilment of responsibilities.

In accordance with the Council's financial procedure rules and contract procedure rules, Internal Audit shall have authority to:

- *Enter at all reasonable times on any Council premises or land*
- *Have access to all assets, records, documents correspondence*

and control systems relating to any financial and other transactions of the Council

- *Require and receive such explanations and information as appear to them to be necessary concerning any matter under examination*
- *Require any employee of the Council to account for cash, stores or any other Authority Asset under his or her control*
- *Access records, assets, personnel and premises belonging to third parties, including contractors and partnerships when required*
- *Directly access the Chief Executive, the Cabinet and the Audit Overview Committee*

Any interference with this right will be deemed to be a breach of organisational procedure and dealt with accordingly.

The scope of audit work extends to services provided through partnership arrangements. The Head of Internal Audit should decide, in consultation of all parties, whether Internal Audit should conduct the work to derive the required assurance themselves or rely on the assurances provided by other auditors. Where necessary the Head of Internal Audit shall agree appropriate access rights in order to obtain the necessary assurances.

12. Ethical standards

In order for Internal Audit to demonstrate high standards of professional conduct, the Internal Auditor must be impartial in discharging all responsibilities. Bias, prejudice or undue influence must not be allowed to limit or override objectivity.

At all times, the integrity and conduct of Internal Audit must be above reproach.

Auditors should ensure that they do not place themselves in a position where responsibilities and private interests conflict. They should comply with the Council's arrangements for registering any personal interest that may conflict, or could be seen by others as conflicting, with the maintenance of objectivity in carrying out and reporting on Internal Audit work.

The Head of Internal Audit will ensure that audit staff are regularly reminded of their ethical responsibilities and ensure that declarations of interest are maintained and updated where appropriate.

Internal Audit must comply with the Council's code of conduct.

Offers of gifts and hospitality should be tactfully refused, although the Council's written guidance on this matter does consider that modest gifts of a promotional nature (calendars, diaries etc.) are generally acceptable.

The Council recognises and formally adopts the C.I.P.F.A. Statement of Professional Practice on Ethics, as appropriate standards by which the conduct of the Internal Audit section can be measured.

13. Risk Management

Corporate Governance requires that risk management be "embedded" into the culture of the Council. The assessment of risk and the determination of acceptable levels of risk together with suitable control strategies are key

management responsibilities

Internal Audit will provide an independent appraisal of the adequacy, application and effectiveness of the arrangements put in place by management.

Internal audit will actively promote risk management, and during the course of audits provide advice to management on identifying and assessing risks and in developing risk control strategies

14. Audit Training

The Head of Internal Audit in consultation with the Director of Strategic Resources will carry out a continuous review of the development and training needs of all audit personnel and will arrange in service training covering both internal and external courses where required.

15. Partnership arrangements

Internal Audit will seek to consult with all of the Council's partners to ensure that appropriate arrangements are in place in order to obtain the necessary assurances that the control environment is working effectively. This can be achieved by either:-

- a) Internal audit carrying out any necessary work to derive the required assurance or
- b) Rely on assurances provided by other auditors.

16. Other work

Internal audit can provide additional services to clients including value for money work; advice on financial procedure rules; contract procedure rules and financial regulations; advice on cash handling and security; appropriateness of access controls and internal controls for new systems; awareness training on Corporate Governance, internal audit and risk management processes.

These services are provided on an ad-hoc basis normally at the request of Heads of Service at the annual audit plan consultation stage, and are included in the annual audit plan where agreed.

17. Audit Charter review

The Head of Internal Audit will annually review the Audit Charter to ensure that it is kept up to date and fit for purpose. Any amendments to the Audit Charter will be reported to the Audit Overview Committee for approval. A copy of the Audit Charter will be made available on Sharepoint and on the Council's website

* Denotes agreed critical business systems with the Audit Commission

Audit number	Reported to committee	2006/ 2007 audit days	Audit item	YTD Plan	YTD Actual	YTD Variance	Complete
07/01	✓	10.00	Financial management system	10.00	11.12	1.12	Y
07/02	n/a	5.00	High level action plan	5.00	0.14	-4.86	no longer required
07/03	✓	6.00	Housing benefits - quarterly check Q1	6.00	6.89	0.89	Y
07/04	✓	10.00	NNDR - liability incl voids & refunds, valuation, collection	10.00	10.72	0.72	Y
07/05		10.00	One stop shops/customer services	10.00	25.74	15.74	Draft
07/06	✓	10.00	Performance indicators	10.00	15.70	5.70	Y
07/07	✓	10.00	Performance planning and review	10.00	7.03	-2.97	Y
07/08	✓	10.00	Priority Outcomes	10.00	10.10	0.10	Y
07/09	✓	10.00	Statement of Internal control	10.00	6.79	-3.21	Y
07/10	✓	10.00	Durham Sport	10.00	5.03	-4.97	Y
07/11	✓	7.00	Leasing	7.00	11.36	4.36	Y
07/12	✓	15.00	Gala - Healthcheck	15.00	15.54	0.54	Y
07/13	✓	7.00	Tourism strategy	7.00	5.57	-1.43	Y
07/14	n/a	10.00	Stores (VFM)	10.00	0.54	-9.46	no longer required
07/15	✓	10.00	IT Strategy	10.00	4.33	-5.67	Y
07/16	✓	10.00	Council tax - liability incl voids, discounts, exemptions etc	10.00	12.74	2.74	Y
07/17	✓	5.00	Council Tax refunds	5.00	6.42	1.42	Y
07/18	✓	6.00	Housing benefits - quarterly check Q2	6.00	5.88	-0.12	Y
07/19	✓	10.00	Housing benefits verification procedures	10.00	10.07	0.07	Y
07/20	✓	10.00	Housing rents - liability incl voids & refunds	10.00	11.45	1.45	Y
07/21		10.00	Payroll	10.00	16.05	6.05	Draft
07/42	✓	15.00	Sports Centres	15.00	12.94	-2.06	Y
07/23	✓	10.00	Flexitime	10.00	9.76	-0.24	Y
07/24	✓	15.00	Housing Lettings	15.00	15.17	0.17	Y
07/25	✓	5.00	RIPA	5.00	5.14	0.14	Y
07/26	✓	10.00	Stage school	10.00	10.98	0.98	Y
07/27	✓	7.00	BACS / Chaps	7.00	7.16	0.16	Y
07/35	n/a	10.00	Housing benefits - performance standards	10.00	0.00	-10.00	c/fwd
07/29	✓	7.00	Register of Electors	7.00	7.03	0.03	Y
07/30	✓	10.00	Void management incl repairs element	10.00	10.20	0.20	Y
07/31	✓	10.00	File Controls	10.00	9.33	-0.67	Y
07/32		10.00	Accountancy Estimates	10.00	7.51	-2.49	Testing
07/33		10.00	Cash collection	10.00	10.38	0.38	Testing
07/34	✓	10.00	Creditors	10.00	14.76	4.76	Y
07/22		10.00	Financial planning / Treasury management	10.00	6.05	-3.95	Y
07/28	n/a	10.00	Food safety and hygiene	10.00	0.00	-10.00	c/fwd
07/36	✓	6.00	Housing benefits - quarterly check Q3	6.00	6.59	0.59	Y
07/37	✓	10.00	Housing benefits fraud investigations	10.00	11.31	1.31	Y
07/38	✓	20.00	Housing repairs and maintenance	20.00	19.87	-0.13	Y
07/39		10.00	Sickness	10.00	17.12	7.12	Draft
07/40	✓	7.00	Neighbourhood wardens/dog fouling/dog warden	7.00	8.15	1.15	Y
07/41	n/a	6.00	Purchasing cards	6.00	0.00	-6.00	c/fwd
07/43	n/a	7.00	Air quality	7.00	1.49	-5.51	c/fwd
07/44	✓	7.00	Licences - Justices	7.00	10.17	3.17	Y
07/45	✓	7.00	Planning enforcement	7.00	7.00	0.00	Y
07/46	✓	10.00	Penetration Testing	10.00	0.00	-10.00	Y
07/47	✓	5.00	Corporate Governance	5.00	2.91	-2.09	Y
07/48		10.00	Debtors incl health check	10.00	3.48	-6.52	Testing
07/49	✓	5.00	Fraud and corruption	5.00	2.03	-2.97	Y
07/50		20.00	Housing benefits - Council tax , Rent allowances & other	20.00	15.64	-4.36	Testing
07/51	n/a	10.00	Internet controls	10.00	0.00	-10.00	c/fwd
07/52	✓	6.00	Housing benefits - quarterly check Q4	6.00	6.28	0.28	Y
07/53	n/a	15.00	Purchasing	15.00	0.00	-15.00	c/fwd
07/54	✓	10.00	Risk Management	10.00	0.00	-10.00	Y
07/55	n/a	7.00	Data protection	7.00	0.00	-7.00	c/fwd
07/56	n/a	7.00	E Planning	7.00	0.00	-7.00	c/fwd
07/57	n/a	10.00	Equalities inc Disability Discrimination Act	10.00	0.00	-10.00	c/fwd
07/58	n/a	7.00	Heritage Economic Regeneration schemes	7.00	0.00	-7.00	c/fwd
07/59	n/a	7.00	Elections	7.00	0.00	-7.00	c/fwd
07/60	✓	7.00	Crematorium	7.00	6.86	-0.14	Y
07/61	n/a	7.00	Sale of land	7.00	0.00	-7.00	c/fwd
07/62	n/a	7.00	Local Plan	7.00	0.00	-7.00	c/fwd
07/63	n/a	10.00	Change controls	10.00	0.00	-10.00	c/fwd
Total		580.00		580.00	444.52	-135.48	
n/a		40.00	Follow ups	40.00	20.89	-19.11	

External

External

Non Productive Time

48.00	Bank holidays	48.00	45.00	-3.00
197.00	Annual Leave	197.00	189.00	-8.00
54.00	Sick leave	54.00	178.10	124.10
6.00	Special leave	6.00	8.80	2.80
63.00	Day Release	63.00	57.17	-5.83
60.00	Other training	60.00	27.40	-32.60
18.00	Study leave / exams	18.00	12.00	-6.00
446.00	TOTAL	446.00	517.47	71.47

Management and Administration (non chargeable)

50.00	Audit planning and supervision	50.00	91.13	41.13
10.00	Review of Policy documentation	10.00	13.20	3.20
15.00	Audit Manual review in line with new CIPFA model	15.00	7.53	-7.47
6.00	Advice and disscussion with District Audit	6.00	2.87	-3.13
2.00	Audit sub group	2.00	3.47	1.47
2.00	Idea sub group	2.00	0.00	-2.00
5.00	Business planning	5.00	0.87	-4.13
10.00	Document imaging/backscanning	10.00	2.57	-7.43
10.00	CPA	10.00	0.40	-9.60
20.00	Best value	20.00	0.07	-19.93
10.00	Risk management	10.00	13.07	3.07
10.00	Internal audit review meetings	10.00	6.87	-3.13
10.00	Procurement	10.00	1.53	-8.47
50.00	General administration	50.00	83.70	33.70
3.00	PDR's	3.00	1.93	-1.07
5.00	Business contiuity	5.00	1.27	-3.73
5.00	Finance Management Team/Section Heads	5.00	2.00	-3.00
223.00	TOTAL	223.00	232.48	9.48

Management and Administration (chargeable)

3.00	Tender openings	3.00	2.10	-0.90
5.00	Financial appraisals	5.00	1.77	-3.23
10.00	Project implementation	10.00	0.27	-9.73
10.00	Stores - stocktaking	10.00	0.00	-10.00
15.00	Advice to departments	15.00	27.30	12.30
8.00	Departmental training	8.00	9.05	1.05
10.00	Organisational and departmental review of regulations and procedures	10.00	0.20	-9.80
10.00	Implementation of recommendations involving additional work by IA	10.00	9.53	-0.47
10.00	Statement of Internal control	10.00	10.81	0.81
10.00	Miscellaneous working groups	10.00	10.23	0.23
91.00	TOTAL	91.00	71.26	-19.74

Ad Hoc work (Contingency)

Completed

06/02	✓		HB Performance standards	0.00	1.15	1.15	Y
06/06	✓		Payroll	0.00	0.48	0.48	Y
06/09	✓		Data Retention and Disposal	0.00	5.23	5.23	Y
06/18	✓		Hire of vehicles/skips etc	0.00	3.03	3.03	Y
06/37	✓		Durham City Arts/Citizens Advice	0.00	2.57	2.57	Y
06/42	n/a		Council tax refunds	0.00	0.20	0.20	Y
06/48	✓		Fleet management	0.00	3.52	3.52	Y
06/55	✓		Travelling expenses	0.00	16.12	16.12	Y
06/62	✓		Corporate Governance	0.00	2.53	2.53	Y
06/63	✓		Fraud and Corruption	0.00	2.09	2.09	Y
06/64	✓		Housing Benefits	0.00	1.35	1.35	Y
06/66	✓		Housing Repairs and maintenance	0.00	32.37	32.37	Y
06/71	✓		Debtors	0.00	5.51	5.51	Y
06/73	✓		Equalities	0.00	3.38	3.38	Y
06/74	✓		Recruitment	0.00	1.62	1.62	Y
			Total b/fwd	0.00	81.15	81.15	

07-cont			Creation of timesheets/databases/etc	0.00	5.58	5.58	
07-cont			IT failure	0.00	6.13	6.13	
07-cont			OMT	0.00	4.33	4.33	
07-cont			Cash receipting/reconciliations	0.00	1.89	1.89	
07-cont			North East Fraud Forum	0.00	0.68	0.68	
07-cont			Gala tills proposal	0.00	0.20	0.20	
07-cont			Key lines of enquiry - use of resources	0.00	4.43	4.43	
07-cont			Elvet waterside development	0.00	0.00	0.00	
07-cont			Crematorium Accounts Reconciliation for EH	0.00	0.41	0.41	
07-cont			Bunker risk assessment	0.00	0.27	0.27	
07-cont			Lost time	0.00	13.85	13.85	
07-cont			Housing strategy	0.00	0.41	0.41	
07-cont			District audit - Internal audit review	0.00	0.82	0.82	
07-cont			Treasury Management	0.00	2.77	2.77	
07-cont			Crematorium administration	0.00	2.57	2.57	
07-cont			Key lines of enquiry - data quality	0.00	2.71	2.71	
07-cont			New code of practice	0.00	2.41	2.41	
07-cont			New Corporate Governance guidelines	0.00	1.83	1.83	
07-cont			Office furniture	0.00	0.68	0.68	
07-cont			Baths till programming training	0.00	0.41	0.41	
07-cont			Emergency Planning	0.00	1.02	1.02	
07-cont			Gala safety	0.00	0.07	0.07	
07-cont			National Fraud Initiative	0.00	1.76	1.76	
07-cont			Portfolio Holders	0.00	0.41	0.41	
07-cont			SX3 consultancy audit set up	0.00	1.08	1.08	
07-cont			District Vision	0.00	0.68	0.68	
07-cont			Audit awareness presentation	0.00	1.63	1.63	
07-cont			Office move	0.00	14.62	14.62	
07-cont			Payroll audit 2005/06 discussion	0.00	0.27	0.27	
07-cont			Rent restructuring and RCA calculation	0.00	1.15	1.15	
07-cont			Debtors corporate recommendations	0.00	0.41	0.41	
07-cont			Neighbourhood Management	0.00	1.01	1.01	
07-cont			Job vacancy, shortlisting, questions, interviews etc.	0.00	3.65	3.65	
07-cont			Durham Business school	0.00	0.34	0.34	
07-cont			CFO's	0.00	0.27	0.27	
07-cont			Self Service	0.00	0.28	0.28	
07-cont			Time and attendance	0.00	0.35	0.35	
07-cont			Accounts and Audit Regulations	0.00	0.54	0.54	
		30.00	Staff turnover contingency	30.00	0.00	-30.00	
		150.00	Special investigations	150.00	15.71	-134.29	
Total		180.00	Total other contingency	180.00	97.63	-82.37	

180.00	Total contingency	180.00	178.78	-1.22
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Totals		1560.00		1560.00	1465.40	-94.60
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* Denotes agreed critical business systems with the Audit Commission

APPENDIX D

AUDIT PLAN 2007/2008 DETAILED ANNUAL

PERIOD 1/04/2007 TO 31/05/2007

Audit number	Audit item	Target Days	YTD Plan	YTD Actual	YTD Variance	Complete
08/01	Performance Indicators	15.00	10.00	14.97	4.97	Draft
08/02	Accountancy - Financial management system	10.00	6.67	0.63	-6.04	Testing
08/03	Capital Finance (incl leasing and prudential code)	10.00	6.67	0.00	-6.67	Pre-audit
08/04	Cash reconciliations (incl arrears, refunds and write offs)	5.00	3.33	0.00	-3.33	Testing
08/05	Burial service	10.00	6.67	10.07	3.40	Y
08/06	IT - Application controls	10.00	6.67	1.70	-4.97	Scope and brief
08/07	NNDR liability incl valuation, collection, voids, refunds, discounts and write offs	10.00	6.67	2.20	-4.47	Closure
08/08	Swimming Baths	15.00	10.00	1.90	-8.10	Closure
08/09	Housing benefits - quarterly check Q1	7.00	4.67	6.13	1.46	Y
08/10	Grants register incl guidance, procedures and min standards for WP	15.00	10.00	0.50	-9.50	Delay til Sept
08/46	VFM - rent collectors (Quarter 1)	7.00	4.67	6.93	2.26	Closure
08/50	Durham Sport (Quarter 1)	10.00	6.67	1.60	-5.07	Y
08/51	Service charges (Quarter 1)	10.00	6.67	0.00	-6.67	Delay til Sept
Total Quarter 1		134.00	89.36	46.63	-42.73	

Audit number	Audit item	Target Days	YTD Plan	YTD Actual	YTD Variance	Complete
08/11	Council Tax liability incl valuation, collection, voids, discounts, exemptions, refunds and w/offs	15.00	0.00	0.00	0.00	NYA
08/12	Accountancy Final accounts	7.00	0.00	0.00	0.00	NYA
08/13	Asset register	10.00	0.00	0.00	0.00	NYA
08/14	Housing benefits - Performance standards	10.00	0.00	0.00	0.00	NYA
08/15	Creditors	10.00	0.00	0.00	0.00	NYA
08/16	Payroll incl overtime, maternity/paternity, mileage and disturbance	15.00	0.00	0.00	0.00	NYA
08/17	Cash collection incl receipting, electronic payments, kiosks, suspense	10.00	0.00	0.00	0.00	NYA
08/18	Gas maintenance	10.00	0.00	0.00	0.00	NYA
08/19	Risk Management	7.00	0.00	0.00	0.00	NYA
08/20	Responsive repairs	10.00	0.00	0.00	0.00	NYA
08/21	Housing benefits - quarterly check Q2	7.00	0.00	0.00	0.00	NYA
08/22	IT - data protection	15.00	0.00	0.00	0.00	NYA
08/45	VFM - Kiosks (Quarter 2)	7.00	0.00	0.00	0.00	NYA
Total Quarter 2		133.00	0.00	0.00	0.00	

Audit number	Audit item	Target Days	YTD Plan	YTD Actual	YTD Variance	Complete
08/23	Sickness	10.00	0.00	0.00	0.00	NYA
08/24	Stage School	10.00	0.00	0.00	0.00	NYA
08/25	System reconciliation	10.00	0.00	0.00	0.00	NYA
08/26	Housing benefits - quarterly check Q3	7.00	0.00	0.00	0.00	NYA
08/27	Planned Maintenance	10.00	0.00	0.00	0.00	NYA
08/28	IT internal penetration testing (outsourced)	10.00	0.00	0.00	0.00	NYA
08/29	Sports Centres	30.00	0.00	0.00	0.00	NYA
08/30	IT - internet controls	10.00	0.00	0.00	0.00	NYA
08/31	Treasury management	5.00	0.00	0.00	0.00	NYA
08/32	Customer services	20.00	0.00	0.00	0.00	NYA
08/33	Data retention and disposal	10.00	0.00	0.00	0.00	NYA
Total Quarter 3		132.00	0.00	0.00	0.00	

Audit number	Audit item	Target Days	YTD Plan	YTD Actual	YTD Variance	Complete
08/34	Transfer station	10.00	0.00	0.00	0.00	NYA
08/35	Accountancy estimates	10.00	0.00	0.00	0.00	NYA
08/36	Housing rents liability incl rent calculation, collection, voids refunds and write offs	10.00	0.00	0.00	0.00	NYA
08/37	Housing benefits - quarterly check Q4	7.00	0.00	0.00	0.00	NYA
08/38	Housing benefits - Council tax, rent allowances etc.	20.00	0.00	0.00	0.00	NYA
08/39	Crematorium	7.00	0.00	0.00	0.00	NYA
08/40	IT - business continuity/disaster recovery	10.00	0.00	0.00	0.00	NYA
08/41	Housing benefits fraud investigations	10.00	0.00	0.00	0.00	NYA
08/42	Debtors incl a/c raising, recovery, write off and system	10.00	0.00	0.00	0.00	NYA
08/43	IT - change controls	10.00	0.00	0.00	0.00	NYA
08/44	Gala - catering and bars	10.00	0.00	0.00	0.00	NYA
08/47	Governance arrangements (Quarter 4)	5.00	0.00	0.00	0.00	NYA
08/48	Fraud and Corruption (Quarter 4)	5.00	0.00	0.00	0.00	NYA
08/49	Statement of Internal Control (Quarter 4)	5.00	0.00	0.00	0.00	NYA
Total Quarter 4		129.00	0.00	0.00	0.00	

Brought forward

Audit number	Audit item	Target Days	YTD Plan	YTD Actual	YTD Variance	Complete
07/39 bf	Sickness	0.00	0.00	5.73	5.73	
07/22 bf	Treasury Management	0.00	0.00	0.60	0.60	
07/38 bf	Housing Maintenance	0.00	0.00	3.10	3.10	
07/48 bf	Debtors	0.00	0.00	6.50	6.50	
07/33 bf	Cash Collection	0.00	0.00	2.07	2.07	
07/60 bf	Crematorium	0.00	0.00	0.00	0.00	
07/37 bf	Housing Benefits Fraud investigations	0.00	0.00	0.17	0.17	
07/50 bf	Housing Benefits	0.00	0.00	2.80	2.80	
07/32 bf	Accountancy Estimates	0.00	0.00	1.27	1.27	
07/05 bf	Customer Services			0.07		
Total brought forward				22.31	22.24	

Reserve List

	Target Days	YTD Plan	YTD Actual	YTD Variance
	52.00	8.67	0.00	-8.67
	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00
TOTAL	52.00	8.67	0.00	-8.67

		Target Days	YTD Plan	YTD Actual	YTD Variance
n/a	Follow ups	40.00	6.67	8.67	2.00

Non Productive Time

	Target Days	YTD Plan	YTD Actual	YTD Variance
Bank Holidays	60.00	24.00	24.00	0.00
Annual leave	197.00	32.83	34.50	1.67
Sickness	54.00	9.00	0.00	-9.00
Special leave	6.00	1.00	1.77	0.77
Day release	68.00	11.33	2.77	-8.56
Other training	60.00	10.00	12.23	2.23
Study leave / exams	12.00	2.00	3.00	1.00
Hospital/Dental appointments	3.00	0.50	0.00	-0.50
TOTAL	460.00	90.66	78.27	-12.39

Management and Administration (non chargeable)

	Target Days	YTD Plan	YTD Actual	YTD Variance
Audit planning, management and supervision of the section.	50.00	8.33	17.10	8.77
Review of policy documentation	10.00	1.67	7.47	5.80
Audit manual review in line with new CIPFA model	15.00	2.50	0.47	-2.03
Advice and discussion with District Audit	6.00	1.00	0.67	-0.33
Audit sub group etc	4.00	0.67	1.00	0.33
Maintenance of data base	5.00	0.83	0.53	-0.30
Idea Sub Group	4.00	0.67	0.00	-0.67
OMT	4.00	0.67	0.00	-0.67
Review of Internal Audit	2.00	0.33	0.63	0.30
Key lines of enquiry	10.00	1.67	0.53	-1.14
New legislation	2.00	0.33	0.33	0.00
Business Planning	5.00	0.83	0.00	-0.83
Document imaging/Back Scanning	10.00	1.67	1.50	-0.17
Options appraisal	20.00	3.33	0.07	-3.26
Risk management	10.00	1.67	1.87	0.20
Internal Audit review meetings	10.00	1.67	4.37	2.70
General Administration	60.00	10.00	35.33	25.33
PDR's	3.50	0.58	1.00	0.42
Business Continuity	5.00	0.83	0.00	-0.83
Emergency planning	5.00	0.83	0.53	-0.30
Section Heads meeting	3.50	0.58	0.40	-0.18
TOTAL	244.00	40.66	73.80	33.14

Management and Administration (chargeable)

	Target Days	YTD Plan	YTD Actual	YTD Variance
Tender openings	3.00	0.50	0.30	-0.20
Financial appraisals	5.00	0.83	0.17	-0.66
Project implementation - Purchasing, Housing and Rents	10.00	1.67	0.00	-1.67
Treasury management cover	4.00	0.67	0.10	-0.57
Stores - stocktaking	10.00	1.67	0.00	-1.67
Advice to Departments	20.00	3.33	2.37	-0.96
Audit awareness training	2.00	0.33	0.00	-0.33
Review of regulations and procedures	3.00	0.50	0.00	-0.50
Implementatuion of recommendations involving additional work by Internal Audit	10.00	1.67	0.47	-1.20
Statement of internal control	10.00	1.67	3.27	1.60
Misc working groups	10.00	1.66	0.60	-1.06
TOTAL	87.00	14.50	7.28	-7.22

Ad Hoc work (Contingency)

	Target Days	YTD Plan	YTD Actual	YTD Variance
08 - cont RTB support work	0.00	0.00	0.20	0.20
08 - cont Building Control investigation	0.00	0.00	0.73	0.73
08 - cont BVPI 12 - Sickness - investigation of methodology and recalculation	0.00	0.00	19.23	19.23
08 - cont Flexitime	0.00	0.00	0.10	0.10
08 - cont Local Area agreement	0.00	0.00	0.53	0.53
08 - cont New system SX3, Housing, Rents, Maintenance	0.00	0.00	0.07	0.07
08 - cont Cash receipting procedures	0.00	0.00	0.90	0.90
08 - cont NWA water rate charges	0.00	0.00	0.47	0.47
08 - cont Staff Turnover contingency	25.00	4.17	0.00	-4.17
08 - cont Special investigations contingency	130.00	21.67	0.00	-21.67
Total	155.00	25.84	22.23	-3.61

Totals	1566.00	276.36	259.19	-17.17
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Note * Main systems for assurance purposes agreed with Audit Commission

Audit and Inspection Plan

June 2007



Audit and Inspection Plan

Durham City Council

Audit 2007/08

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

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

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

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

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

Status of our reports to the Council

Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any director/member or officer in their individual capacity, or to any third party.

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Introduction

- 1 This plan has been developed jointly by the Relationship Manager and District Auditor. It sets out the audit and inspection work that we propose to undertake for the 2007/08 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of Comprehensive Performance Assessment (CPA). It reflects:
 - audit and inspection work specified by the Audit Commission for 2007/08;
 - current national risks relevant to your local circumstances; and
 - your local risks and improvement priorities.
- 2 Your Relationship Manager will continue to help ensure further integration and co-ordination with the work of other inspectorates.
- 3 As we have not yet completed our audit for 2006/07, the audit planning process for 2007/08, including the risk assessment, will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.

Responsibilities

- 4 We comply with the statutory requirements governing our audit and inspection work, in particular:
 - the Audit Commission Act 1998;
 - the Local Government Act 1999 (best value inspection and audit); and
 - the Code of Audit Practice.
- 5 The Code of Audit Practice (the Code) defines auditors' responsibilities in relation to:
 - the financial statements (including the statement on internal control (SIC)); and
 - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 6 The Audit Commission's Statement of responsibilities of auditors and of audited bodies sets out the respective responsibilities of the auditor and the Council. The Audit Commission has issued a copy of the Statement to every audited body.
- 7 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.

CPA and Inspection

- 8 The Audit Commission's CPA and inspection activity is underpinned by the principle of targeting our work where it will have the greatest effect, based upon assessments of risk and performance.
- 9 The Council's CPA category is therefore a key driver in the Commission's inspection planning process. The Council is currently categorised as 'fair'.
- 10 We have applied the principles set out in the CPA framework, *CPA – the Harder Test*, recognising the key strengths and areas for improvement in the Council's performance.
- 11 Strengths in the Council's performance include:
 - improving services, with some good performance in benefits, recycling and community safety;
 - robust plans for improvement; the Council has clarified its strategic priorities and improved focus through its planning documents and strategies.
- 12 Areas for improvement in the Council's performance include:
 - Continuing to embed the business planning framework, ensuring that all service targets are linked clearly and explicitly to corporate aims;
 - Scrutinising areas of declining or poor performance, particularly in housing services, to drive improvement in these services;
- 13 On the basis of our planning process we have identified where our inspection activity will be focused for 2007/08 as follows.

Table 1 Summary of inspection activity

Inspection activity	Reason/impact
Relationship Manager (RM) role	To act as the Commission's primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Direction of travel (DoT) assessment	An annual assessment, carried out by the RM, of how well the Council is securing continuous improvement. The DoT will be reported in the Annual Audit and Inspection Letter.

Inspection activity	Reason/impact
Access to Services Inspection	A county-wide inspection to be carried out of the County Council and all seven district councils in the county as a joint inspection, to assess the accessibility to the public of local government services and how local councils work with other organisations to facilitate wider access to services. We will discuss the details of this inspection with all the councils before finalising its scope and timing.
Strategic Housing Services Inspection	Inspection of strategic housing services retained by the Council following the LSVT including temporary accommodation, private sector housing performance and strategic enabling.

Work under the Code of Audit Practice

Financial statements

- 14 We will carry out our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 15 We are required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Council as at 31 March 2008 and its income and expenditure for the year.
- 16 We are also required to review whether the SIC has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the SIC is misleading or inconsistent with our knowledge of the Council.

Use of resources

Value for money conclusion

- 17 The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires auditors to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at their conclusion.
- 18 In meeting this responsibility, we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators we will normally place reliance on their reported results to inform our work.
- 19 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

Use of resources assessment

- 20 The Audit Commission has specified that auditors will complete a use of resources assessment for 2007/08. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services.
- 21 The work required to arrive at the use of resources assessment is fully aligned with that required to arrive at the auditor's value for money conclusion.

- 22 We will arrive at a score of 1 to 4, based on underlying key lines of enquiry, for each of the following themes:

Theme	Description
Financial reporting	<ul style="list-style-type: none"> • Preparation of financial statements. • External reporting.
Financial management	<ul style="list-style-type: none"> • Medium-term financial strategy. • Budget monitoring. • Asset management.
Financial standing	<ul style="list-style-type: none"> • Managing spending within available resources.
Internal control	<ul style="list-style-type: none"> • Risk management. • System of internal control. • Probity and propriety.
Value for money	<ul style="list-style-type: none"> • Achieving value for money. • Managing and improving value for money.

- 23 We will report details of the scores and judgements made to the Council. The scores will be accompanied, where appropriate, by recommendations of what the Council needs to do to improve its services.
- 24 The auditor's scores are reported to the Commission and are used as the basis for its overall use of resources judgement for the purposes of CPA.

Data quality

- 25 The Audit Commission has specified that auditors will be required to undertake audit work in relation to data quality. This is based on a three-stage approach covering:
- Stage 1 - management arrangements;
 - Stage 2 - completeness check; and
 - Stage 3 - risk-based data quality spot checks of a sample of performance indicators.
- 26 The work at stage 1 will link to our review of the Council's arrangements to secure data quality as required for our value for money conclusion and, together with the results of stage 2, will inform the risk assessment for the detailed spot check work to be undertaken at stage 3. The results of the work at stage 3 will inform the Commission's CPA assessment.

- 27 Our fee estimate reflects an assessment of risk in relation to the Council's performance indicators. This risk assessment may change depending on our assessment of your overall management arrangements at stage 1 and we will update our plan accordingly, including any impact on the fee.

Best Value Performance Plan

- 28 We are required to carry out an audit of your best value performance plan (BVPP) and report on whether it has been prepared and published in accordance with legislation and statutory guidance.

Assessing risks

- 29 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is co-ordinated with the work of other regulators, and that our work helps you to improve.
- 30 Our risk assessment process starts with the identification of the significant financial and operational risks applying at the Council with reference to:
- our cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
 - interviews with Council officers;
 - liaison with internal audit; and
 - the results of other review agencies' work where relevant.
- 31 We have not included a risk assessment for our audit of the financial statements as many of the specific risks may not become apparent until after we have completed our 2006/07 audit. We will issue a separate opinion audit plan for our audit of the financial statements in November 2007
- 32 For each of the significant risks identified in relation to our use of resources work, we consider the arrangements put in place by the Council to mitigate the risk, and plan our work accordingly.
- 33 Our initial risk assessment for use of resources work is provided in Appendix 1. This will be updated through our continuous planning process as the year progresses.

Work specified by the Audit Commission

Whole of government accounts (WGA)

- 34 We will be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office which is proportionate to risk. In the previous year this work was funded centrally but for the future the cost of the work will be included in your audit fee.

National Fraud Initiative

- 35 The Council participates in the National Fraud Initiative which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated on public bodies. This work will be carried out by an individual appointed to assist in the audit of the Council's accounts (in accordance with section 3(9) of the Audit Commission Act 1998).

Additional improvement work

- 36 Under section 35 of the Audit Commission Act 1998, the Commission may undertake additional improvement work at the request of the audited body. We will be happy to discuss with officers areas where we could be well placed to provide additional support to the Council's improvement outside the framework of risk based audit and inspection.

Certification of grant claims and returns

37 We will continue to certify the Council's claims and returns on the following basis:

- claims below £100,000 will not be subject to certification;
- claims between £100,000 and £500,000 will be subject to a reduced, light-touch certification; and
- claims over £500,000 will be subject to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced certification approach for these claims.

The audit and inspection fee

- 38 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2007/08. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 39 The total indicative fee for audit and inspection work included in this audit and inspection plan for 2007/08 is £142,585 which compares with the planned fee of £119,550 for 2006/07.
- 40 Further details are provided in Appendix 2 which includes a breakdown of the fee; specific audit risk factors; the assumptions made when determining the audit fee, for example, the timeliness and quality of draft accounts presented for audit and the supporting working papers; specific actions Durham City Council could take to reduce its audit and inspection fees; and the process for agreeing any changes to the fee. The fee includes all work identified in this plan unless specifically excluded.
- 41 In addition we estimate that we will charge approximately £15,000 for the certification of claims and returns.
- 42 As indicated in paragraphs 2 and 33, the audit planning process will continue as the year progresses and it is likely that there will be some changes to our planned work and hence to the indicative fee quoted in paragraph 40 above. Any changes to the fee will be agreed with you.

Other information

The audit and inspection team

- 43 The key members of the audit and inspection team for the 2007/08 audit are shown in the table below.

Table 2

Name	Contact details	Responsibilities
Sarah Diggle Relationship Manager	s-diggle@audit-commission.gov.uk 0191 4602022	The primary point of contact with the authority and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Steve Nicklin Relationship Manager and District Auditor	s-nicklin@audit-commission.gov.uk 0191 4602022	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive and Audit Committee.
Jim Dafter Audit Manager	j-dafter@audit-commission.gov.uk 0191 4602022	Manages and co-ordinates the different elements of the audit work. Key point of contact for the Director of Finance.

Independence and objectivity

- 44 We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you. We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised at Appendix 3.

Quality of service

- 45 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact the Relationship Manager or District Auditor in the first instance. Alternatively you may wish to contact the NE sub region interim Head of Operations, David Jennings.
- 46 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet *Something to Complain About* which is available from the Commission's website or on request.

Planned outputs

- 47 Our reports will be discussed and agreed with the appropriate officers before being issued to the audit committee.

Table 3

Planned output	Indicative date
Opinion audit plan	November 2007
Data quality report	September 2007
Interim audit memorandum	June 2008
Annual governance report	September 2008
Opinion on the financial statements and value for money conclusion	September 2008
Final accounts memorandum (to the Director of Finance)	October 2008
Use of resources report	December 2008
Direction of Travel report	March 2008 (within Annual Audit and Inspection Letter)
Strategic Housing inspection report	May 2008
Access to Services inspection report (county-wide)	June 2008
Annual audit and inspection letter	March 2008 and 2009
BVPP report	December 2008

Appendix 1 – Initial risk assessment – use of resources

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities
<p>Local authorities will play a key role in shaping the local area and working in partnership with others to deliver on local community and neighbourhood priorities.</p>	<p>The Council is actively involved in the LAA and other partnerships and is aware of the need to continue to work in partnership.</p>	<p>Yes</p>	<p>We will review the arrangements in place for achieving LAA targets and will undertake this work in liaison with other agencies; We will undertake specific pieces of work across the public bodies in Durham to assess arrangements.</p>	<p>Value for money - KLOE 5.1 - The Council currently achieves Value for Money. Internal control - KLOE 4.2 - The Council has arrangements in place to maintain a sound system of internal control. Financial management - KLOE 2.1 - The Council's medium term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities. Financial management - KLOE 2.2 - The council manages performance against budgets.</p>
<p>There are on going HR issues including unauthorised levels of absence.</p>	<p>Monitored through risk management arrangements.</p>	<p>Yes</p>	<p>Review the management of unauthorised absence.</p>	<p>VFM conclusion criterion, KLOE 4.1 - The Council manages its significant business risks.</p>

18 Audit and Inspection Plan | Appendix 1 – Initial risk assessment – use of resources

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities
<p>The health of people in the north east, including Durham City, is historically amongst the worst in the country. The Council may not fully understand the local health needs and prioritise its plans to address health inequalities.</p>	<p>As above.</p>	<p>Yes</p>	<p>We will undertake Phase 3 of the health inequalities review (cross cutting reviews covering health and local government across Durham).</p>	<p>Value for money - KLOE 5.1 - The Council currently achieves Value for Money.</p>
<p>Specific issues around childhood poverty exist in Co. Durham, linked with poor performance on indicators such as teenage pregnancy and low educational achievement.</p>	<p>The Council is actively involved in the LAA and other community partnerships.</p>	<p>Yes</p>	<p>We will undertake specific piece of work across the public bodies in Durham to assess services for vulnerable children and young people.</p>	<p>VFM conclusion criterion, e.g. KLOE 4.1 - How the Council manages its significant business risks.</p>

Appendix 2 – Audit and inspection fee

- 1 Table 4 provides details of the planned audit and inspection fee for 2007/08 with a comparison to the planned fee for 2006/07.

Table 4

Audit area	Planned fee 2007/08 £	Planned fee 2006/07 £
Audit		
Financial statements	84,310	73,450
Use of resources (including BVPP)	25,350	24,760
Data quality	10,525	13,540
Whole of government accounts	2,600	0
National Fraud Initiative	625	0
Total audit fee	123,410	111,750
Inspection		
Relationship management	2,950	2,300
Direction of Travel	2,950	1,300
Strategic Housing inspection	6,945	Not applicable
Access to Services inspection report	6,330	Not applicable
Total inspection fee	19,175	7,800
Total audit and inspection fee	142,585	119,550
Certification of claims and returns	15,000	18,000

- 2 The Audit Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Audit Commission may, therefore, adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and complexity at a particular body.

- 3 It is a matter for the auditor to determine the work necessary to complete the audit and, subject to approval by the Audit Commission, to seek to agree an appropriate variation to the scale fee with the Council. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards). The fee at Durham City is 5 per cent more than the scale fee which is within the Audit Commission's tolerance.
- 4 The fee (plus VAT) will be charged in 12 equal instalments from April 2007 to March 2008.

Specific audit risk factors

- 5 In setting the audit fee we have taken into account the following specific risk factors:
 - developments to the LAA and partnership working;
 - the Council's prompt response to previous audit work; and
 - the development of debt recovery actions.
- 6 At this stage no work has been programmed in the plan in respect of the possible review and restructuring of local government within the Durham county area. The scope and nature of any such work will be driven by the outcome of the Government's review of the proposals for re-organisation. We will provide details to officers of any additional audit or inspection activity proposed in due course, and will discuss the fee implications.

Assumptions

- 7 In setting the fee, we have assumed that:
 - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2006/07;
 - you will inform us of significant developments impacting on our audit;
 - internal audit meets the appropriate professional standards;
 - internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
 - good quality working papers and records will be provided to support the financial statements;
 - requested information will be provided within agreed timescales;
 - prompt responses will be provided to draft reports; and
 - additional work will not be required to address questions or objections raised by local government electors.

- 8 Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the opinion audit plan.
- 9 Changes to the plan will be agreed with you. These may be required if:
 - new residual audit risks emerge;
 - additional work is required of us by the Audit Commission or other regulators; and
 - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

Specific actions Durham City Council could take to reduce its audit and inspection fees

- 10 The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit and inspection fees. We have a constructive relationship with the Council and expect our recommendations and reports to have a high profile. The majority of risks that are driving the increase in fees are external but continued prompt and robust implementation of our recommendations will contribute to improvements in arrangements and ultimately impact on audit fees.

Process for agreeing any changes in audit fees

- 11 If we need to make any significant amendments to the audit fee during the course of this plan, we will firstly discuss this with the Chief Executive and Corporate Director of Finance. We will then prepare a report outlining the reasons why the fee needs to change for discussion with the audit committee.

Appendix 3 – Independence and objectivity

- 1 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of my appointment. When auditing the financial statements auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
 - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
 - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 4 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the audit committee. The auditor reserves the right, however, to communicate directly with the authority on matters which are considered to be of sufficient importance.
- 5 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

6 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows:

- appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the audit plan as being 'additional work' and charged for separately from the normal audit fee;
- auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission;
- the District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years;
- the District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body; and
- the District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Annual Audit and Inspection Letter

May 2007



Annual Audit and Inspection Letter

Durham City Council

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

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

Status of our reports

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

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

Reports prepared by appointed auditors are:

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

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Our overall summary

- 1 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the findings and conclusions from the audit of the Council and from any inspections that have been undertaken in the last year. The letter includes our review of how well the Council has progressed (our Direction of Travel report) and our assessment of how well the Council has managed its finances (the Use of Resources scores). These latter components will be an important feed into any future decision regarding the potential for a rescoring the Council's Comprehensive Performance Assessment (CPA) category.
- 2 The report is addressed to the Council; it has been written for councillors in particular. It is available as a public document for stakeholders, including members of the community served by the Council.
- 3 The main messages for the Council in this report are as follows.
 - The Council is improving but some performance is mixed. In 2005/06 service performance overall continued to be average or above average, with some good performance in benefits, recycling and community safety. There was poor performance in some housing services, on sickness absence and on the diversity of the workforce.
 - The Council has the capacity to deliver its current plans and is developing its in-house capacity to meet future needs. It provides good value for money and in 2005/06 overall costs were lower than in similar councils.
 - There was a significant improvement in financial reporting, with accounts, produced within deadline, presented fairly and containing only a small number of non-trivial errors.
 - Financial management arrangements improved, the medium term financial strategy, budgets and capital programme are soundly based and designed to deliver strategic priorities. Performance is actively managed against budgets and the Council manages its asset base.
 - Internal control arrangements improved, risk management arrangements have been strengthened and developed including specific reference to partnerships and procedure notes have been introduced for key financial systems.
- 4 The Council is facing a period of uncertainty arising out of the potential offered by the Local Government White Paper for local government re-organisation. Any consultation on these proposals will present challenges in terms of compliance with the requirements of the Code of Practice on Local Authority Publicity, and any changes to the structure of local government in the county will present challenges in terms of maintaining and improving local services.

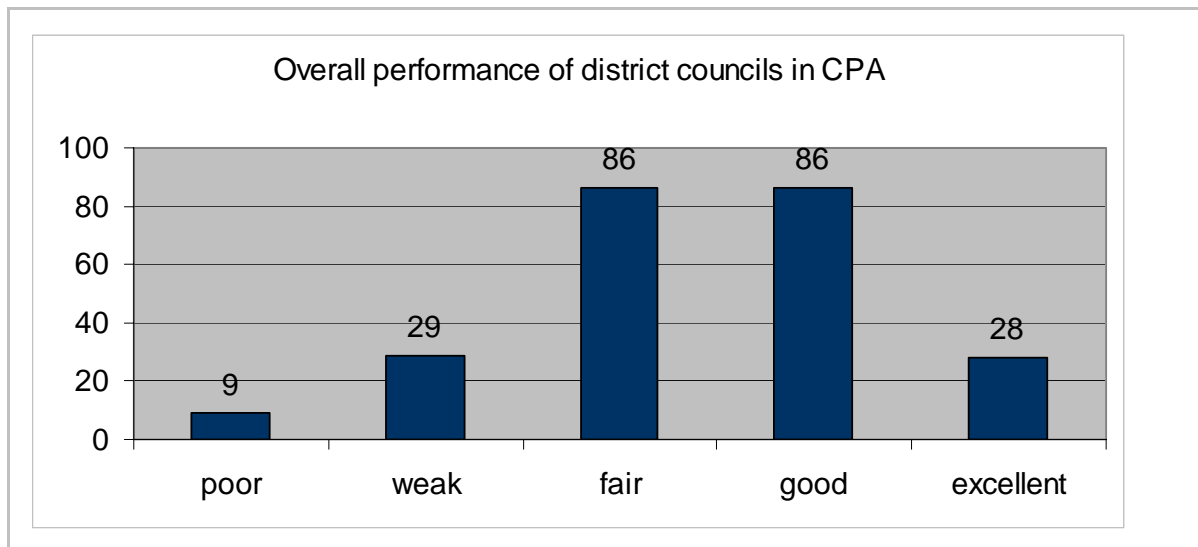
Action needed by the Council

- 5 The Council should:
 - continue to embed the business planning framework, ensuring that all service targets are linked clearly and explicitly to corporate aims;
 - scrutinise areas of declining or poor performance, particularly in housing services, to drive improvement in these services;
 - develop processes to evaluate the effectiveness of action taken to recover outstanding debt; and
 - continue to develop partnership arrangements.
- 6 In the context of the potential for reorganisation of local government in the county, it is important that the Council continues to review governance arrangements and maintains its momentum in terms of performance management, including complying with the duty of best value to improve services, during a period of uncertainty. Equally it is important that the Council is seen to abide by the requirements of the Code of Practice on Local Authority Publicity throughout the consultation period and thereafter.

How is Durham City Council performing?

- 7 Durham City Council was assessed as Fair in the Comprehensive Performance Assessment carried out in 2003. These assessments have been completed in all district councils and we are now starting to update these assessments, through an updated corporate assessment, in councils where there is evidence of change. The following chart is the latest position across all district councils.

Figure 1 Overall performance of district councils in CPA



Source: Audit Commission

The improvement since last year - our Direction of Travel report

- 8 The Council is improving but some performance is mixed. The focus for investment has been in priority areas, particularly in poorer performing services, and this has achieved some improvements. In 2005/06 overall costs were lower than similar councils and standards of service generally continued to be either average or above. However, there was poor performance on sickness absence and on the diversity of the workforce.

- 9 In 2005/06 the Council continued to improve its overall performance as measured by Best Value Performance Indicators (BVPIs) although its rate of improvement was not as good as in 2004/05. As measured by the Direction of Travel 2005/06 basket of best value performance indicators (BVPIs), the Council's rate of improvement was below the average for district councils, but it had more than average BVPIs in the top quartile:
- 50 per cent improved compared to an average for district councils of 58 per cent; and
 - 43 per cent were in the best quartile compared with an average 32 per cent.
- 10 Performance towards achieving the flourishing communities priority is mixed. The benefits service continued to deliver top quartile performance on most indicators in 2005/06. Planning performance continues to exceed government targets but has not maintained all the improvements made in 2004/05. Recycling and composting is increasing but was still below average in 2005/06; amounts of waste collected, while still lower than average, increased. The Council is contributing to better transport services as part of its commitment to improve access for local people. The County wide concessionary fares scheme offers more generous provision than many nationally but costs are slightly above average for similar councils.
- 11 The performance of housing services has been mixed but the Council has taken action to improve previously poor performance. Some aspects, including the provision of choice-based lettings, are above average. The Council's approach to meeting the needs of homeless people includes some innovative work which has won Government recognition. Services have worked together to review the processes for reletting empty homes, after the proportion of vacant Council homes and the time taken to re-let Council homes (and rent lost as a result), were both in the bottom quartile of performance in 2005/06; the Council's own figures show recent improvements. Over 60 per cent of the Council's homes still do not fully meet the Decent Homes Standard but there is a programme and committed investment to achieve the standard for all Council houses by 2010. The Council has taken action to reduce the time taken to complete repairs, which was in the lowest quartile in 2005/06 but also shows recent improvement (Council's own figures).
- 12 Services within the Council's Capital City priority are improving. Investment in its Heart of the City and village regeneration initiatives, which include working with the private sector, are contributing to regeneration projects across the City that are helping to keep unemployment below the national and regional averages. Culture and heritage expenditure is highest quartile but this has resulted in above average use of facilities (theatre) and high levels of satisfaction. Above average investment in parks, open spaces and street cleansing is supporting priorities and has resulted in high performance and above average satisfaction. The Council's investment in tourism and its contribution to improving the local environment have been recognised regionally and nationally with Britain in Bloom awards.

- 13 The Council is making effective contributions to improve wider community outcomes. It is helping to address community health issues through increasing participation in leisure activities as part of joint initiatives with the PCT and other LSP partners. Leisure centre services are targeting the needs of minority groups such as doctors' referrals, young and disabled people by offering extra transport arrangements and reducing entrance charges. Satisfaction with sport and recreation is above average and usage is increasing from a low level.
- 14 Multi-agency initiatives such as Community Carousels, StreetSafe and Positive Futures, to which the Council contributes, are helping to address community safety. The Council's involvement is in line with its priorities and is helping to keep crime levels and people's concerns about criminal activities at a below average level.
- 15 The Council is improving access to services for most local people. It is building on improved communications it developed as part of grant funded regeneration projects by extending the arrangements to wider communities in partnership with external agencies such as at Bowburn. It has improved access to services on its website and the introduction of a CRM system has enabled the Council to double electronic access to its services to 97 per cent although this falls short of the Government's target. It provides access to language line for people who wish to speak in a language other than English. The Council's three Cityinfo centres are conveniently located for most people. They have good physical access and are fully DDA compliant. The Council is making some progress to address diversity issues and has recently achieved level 2 in the Equalities Standard for Local Government.
- 16 Value for money is improving. Total spending by the Council is lowest quartile. Environment and housing services are generally low cost but their standards of service are mixed. Cultural services (including leisure) are high cost but are also high quality; this is consistent with corporate priorities. While Council tax remains above average, recent increases have been lower than inflation. Efficiency improvements contributed to £900,000 savings during 2005/06 which exceeds Gershon and the Council's own targets.
- 17 The Council has clearly defined and robust plans for improvement. It has clarified its strategic priorities and improved focus through its planning documents and strategies. Service and financial planning are now aligned with corporate priorities. Financial planning and management have also improved. The Council has also revised its scrutiny arrangements, consolidated the performance management framework across the organisation and strengthened its project management arrangements. These changes have improved monitoring and management decision making including the Council's focus on value for money.

- 18 The arrangements introduced by the Council have helped it to maintain progress in organisational and service improvements. Procedure reviews including administration and procurement have helped to improve value for money. Investments in poorer performing areas include Benefits and ICT have resulted in improved performance. The Council has addressed significant unintended high spending such as the Gala Theatre by reducing costs and increasing attendance. However, not all of the new arrangements were fully embedded across the Council during 2005/06. Progress is particularly slow against some 'corporate health' performance indicators, particularly for sickness absence and diversity of the workforce; although improvements are being achieved in line with targets, a number of corporate health PIs were still worst quartile in 2005/06. Sickness absence and the diversity of the workforce did not improve.
- 19 The Council has the capacity to deliver its current plans and is developing its in-house capacity to meet future needs through increased resources, training, development and succession planning. Some of these initiatives are at an early stage. It aims to balance its in-house capacity with partnership working to deliver services, working with other councils and the private sector. It has not yet completed its planned option appraisal of non-statutory services or its options appraisal for all services to identify the best way to provide services in the future. The Council is currently working on guidelines for governance and performance management in partnerships.

Service inspections

Environmental Services - 24 hour Community

- 20 In April 2006 we inspected the Council's environmental services with a particular focus on their ability to respond to the needs of different communities within the district including 24-hour demands.
- 21 We found good services with promising prospects for improvement. The Council had recognised that environmental services make a key contribution towards the achievement of its priorities. It understood the needs of different communities well, from villages to the night-time economy of the city. The services were generally performing well above minimum standards and provided good value for money; the quality of the services had been recognised by local people and by awards. The Council was working well in partnership and was taking a balanced approach to cleansing through a combination of education and enforcement supporting area-based collection services.
- 22 Access to services had improved through the customer contact centres but communication and consultation with stakeholders needed further improvement. At the time of the inspection the Council had not set out the longer term aims and priorities for these services. The performance management framework was not fully effective and business and financial planning were not aligned.

Financial management and value for money

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

Table 1

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

(Note: 1=lowest, 4=highest)

- 26** The key issues arising from the audit, as reflected in the above judgements where appropriate, are as follows.
- There was a significant improvement in financial reporting, with accounts, produced within deadline, presented fairly and only containing a small number of non-trivial errors.
 - Financial management arrangements improved, the medium term financial strategy, budgets and capital programme are soundly based and designed to deliver strategic priorities. Performance is actively managed against budgets and the Council manages its asset base.
 - Internal control arrangements improved, risk management arrangements have been strengthened and developed including specific reference to partnerships and procedure notes have been introduced for key financial systems.
- 27** The key actions needed to further strengthen arrangements are as follows.
- Continue to embed the business planning framework, ensuring that all service targets are linked clearly and explicitly to corporate actions.
 - Develop processes to evaluate the effectiveness of action taken to recover outstanding debt.
 - Continue to develop partnership arrangements.

Local Government Review

- 28** Perhaps one of the most significant issues facing the Council at this point is the potential re-organisation following the Local Government White Paper of last year.
- 29** It is important that the Council continues to review governance arrangements and maintains its momentum in terms of performance management, including complying with the duty of best value to improve services, during this period of uncertainty. Equally it is important that the Council is seen to abide by the requirements of the Code of Practice on Local Authority Publicity throughout the consultation period and thereafter.

Conclusion

- 30 This letter has been discussed and agreed with the Chief Executive and Director of Strategic Resources. A copy of the letter will be presented to Cabinet on 6 June 2007.
- 31 The Council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

Availability of this letter

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

Sarah Diggle

Relationship Manager

Use of Resources Auditor Judgements 2006

Durham City Council

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

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

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

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

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

Status of our reports to the Council

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

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

Copies of this report

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Introduction

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

Table 1 Standard scale used for assessments and inspections

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

The overall score for Use of Resources assessment will be reported to the Council by the Audit Commission on 16 March 2007.

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

- 6 The five theme scores for Durham City Council are outlined overleaf. The Council has improved its performance in a number of areas. The following summary sets out our key findings in relation to each theme and key areas for improvement.

Use of resources judgements

Table 2 Summary of scores at theme and KLOE level

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

Theme summaries

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

Table 3 Summary of findings and conclusions by theme

<h3>Financial reporting</h3> <p>Theme score 3</p>	
<p>Key findings and conclusions</p> <p>Accounts, produced within deadlines, were presented fairly and only contained a small number of non-trivial errors. The accounts were subject to robust member scrutiny and an unqualified opinion was issued. Accuracy, openness and accountability are areas where the Council has been strengthening its arrangements in recent years, and the Council is now performing well on financial reporting. Specific improvements since the 2005 assessment include:</p> <ul style="list-style-type: none"> • introduction of regular bank reconciliations; • development of summary accounts to take into account feedback received; and • changes to the Council website. 	
<p>Improvement opportunities</p>	
<p>KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.</p>	<p>Working papers can be further improved.</p>
<p>KLOE 1.2 The Council promotes external accountability.</p>	<p>There is a need to better demonstrate that the views of a range of stakeholders are being considered in making the decision whether to publish an annual report.</p>

Financial management	
Theme score 3	
Key findings and conclusions	
<p>The Council has taken effective action over the past two years to ensure that its medium-term financial strategy, budgets and capital programme are soundly based and are designed to deliver its strategic priorities. Performance is actively managed against budgets and the Council manages its asset base.</p>	
Improvement opportunities	
<p>KLOE 2.1 The Council's medium-term financial strategy (MTFS), budgets and capital programme are soundly based and designed to deliver its strategic priorities.</p>	<p>The Council should continue to;</p> <ul style="list-style-type: none"> • monitor its cash-flow to inform short and long-term investment decisions; and • embed the business planning framework.
<p>KLOE 2.2 The Council manages performance against budgets.</p>	<p>The development of the Council's partnerships toolkit should be further embedded and its effectiveness kept under review.</p> <p>Consideration should be given to the use of a traffic light system to focus on key budget variances.</p> <p>Ensure that reports explicitly include relevant information on significant revenue amounts and balances and profiled savings and efficiency gains.</p>
<p>KLOE 2.3 The Council manages its asset base.</p>	<p>Continue to develop performance measures and benchmarking to describe and evaluate how the Council's asset base contributes to the achievement of corporate and service objectives, including improvement priorities.</p> <p>Develop an approach for the co-ordination of asset management information and its integration with relevant organisational financial information.</p>

Financial standing

Theme score 2

Key findings and conclusions

The Council sets a balanced budget and maintains spending within budget. The Council has set target levels for reserves and balances based on a risk assessment. The Council monitor key income targets but do not monitor the effectiveness of recovery actions and associated costs.

Improvement opportunities

KLOE 3.1 The Council manages its spending within the available resources.

Continue to develop processes to evaluate the effectiveness of recovery action.

Internal control	
Theme score 3	
Key findings and conclusions	
<p>Risk management arrangements have been strengthened and developed including specific reference to partnerships. Training has been provided to Members and to senior and middle management.</p> <p>The Council has the majority of expected internal controls in place and has introduced procedure notes for key financial systems. The Council is developing its approach to identifying partnerships and associated governance arrangements.</p> <p>Anti fraud and corruption arrangements are well established, but the whistle blowing policy is not regularly publicised.</p>	
Improvement opportunities	
KLOE 4.1 The Council manages its significant business risks.	<p>Ensure planned risk management training and awareness sessions cover all appropriate Members and staff.</p> <p>Review risk management arrangements to ensure the Council can demonstrate that it has embedded risk management in its corporate business processes.</p>
KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.	Continue to develop partnership arrangements.
KLOE 4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	Following the recent consultation and update to the whistle blowing policy, introduce arrangements to ensure regular publicity of the policy.

Value for money

Theme score 3

Key findings and conclusions

The Council implemented the final parts of its performance management arrangements during 2005/06 including the consolidation of service planning arrangements across all service areas. Arrangements include service and corporate level monitoring (performance clinics). Data includes benchmarking costs with those for similar councils and previous year performance data. There is comparison of performance with targets each quarter and remedial action is required where underperformance occurs. This has included approval for extra resources or funding to improve performance such as with the planning and benefits services. There is quarterly monitoring of service plan targets.

The Council has made good progress in improving its efficiency. It has both Member and Officer Efficiency Champions and has set up an Efficiency Steering Group to monitor and review progress against targets and report to OMT and scrutiny. Efficiency savings are in response to public consultation and in line with corporate priorities.

Procurement practises reflect the National Procurement Strategy. The Council has increased resources in its corporate and strategic core.

The Council has secured external funding to help deliver its priorities. It developed parts of the Millennium City Complex with grants secured from the Millennium and European Commissions. It has recently regenerated city centre streetscapes with HERS funding and is undertaking the Visioning Project largely funded by One North East. The Council attracted large amounts of ERDF Objective 2 Priority 4 and SRB funds to regenerate its deprived areas. The Council has appointed a Funding Officer to strengthen the strategic approach to procurement. This has resulted in more funds for both Council and Community projects.

Improvement opportunities

KLOE 5.1 The Council currently achieves good value for money.

Service planning was not embedded during 2005/06, the Council need to ensure that all service targets are linked clearly and explicitly to corporate actions.

Housing and central services performance is mixed though work is ongoing to address this.

Value for money

Theme score 3

KLOE 5.2 The Council manages and improves value for money.

Procurement decisions to date have largely related to elements of service rather than whole service market testing, stage 2 options appraisal of all non statutory services and stage 3 procurement options of all services have not been implemented during 2005/06.

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

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

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

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

14 Use of Resources Auditor Judgements 2006 | Appendix 1 – Criteria which will gain 'must have' status for the next assessment

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

IN PRIVATE

Resolved: That pursuant to Section 100.A(4) of the Local Government Act 1972 the public be excluded from the remainder of the Meeting during consideration of the item listed in Column 1 below, being a report of the Officer mentioned in Column 2 below on the grounds that if members of the public were present during discussion of this item there would be disclosure to them of exempt information (as defined in Section 100.1) of the description indicated in Column 3 below.

Column 1	Column 2	Column 3
2006/2007 Audits Completed (Excluding Items Already Reported)	Director of Strategic Resources	<p>Information relating to any individual (Para 1)</p> <p>Information which is likely to reveal the identify of an individual (Para.2)</p> <p>Information relating to the financial or business affairs of any particular person (including the Authority holding the information) (Para.3)</p> <p>Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime (Para.7)</p>
2006/2007 Audits Completed (Brought Forward to 2007/2008)	Director of Strategic Resources	<p>Information relating to any individual (Para 1)</p> <p>Information which is likely to reveal the identify of an individual (Para.2)</p> <p>Information relating to the financial or business affairs of any particular person (including the Authority holding the information) (Para.3)</p> <p>Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime (Para.7)</p>

2.

Column 1	Column 2	Column 3
2007/2008 Audits Completed	Director of Strategic Resources	<p>Information relating to any individual (Para 1)</p> <p>Information which is likely to reveal the identify of an individual (Para.2)</p> <p>Information relating to the financial or business affairs of any particular person (including the Authority holding the information) (Para.3)</p> <p>Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime (Para.7)</p>
Special Investigations	Director of Strategic Resources	<p>Information relating to any individual (Para 1)</p> <p>Information which is likely to reveal the identify of an individual (Para.2)</p> <p>Information relating to the financial or business affairs of any particular person (including the Authority holding the information) (Para.3)</p> <p>Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime (Para.7)</p>

Note: Members are respectfully reminded that in opening up the Council's business to public scrutiny the Leader of the Council places emphasis on the need to maintain confidentiality on those items which are allowed to remain so under the Access to Information Act - The abovementioned matters fall into that category and Members' co-operation is sought in this regard.