

Durham City Council

March 2008

Annual Audit and Inspection Letter

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; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

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

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

Status of our reports

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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Key messages

- 1 The key messages arising from our inspection work, including Direction of Travel, were as follows.
 - The Council is improving services in areas that it has identified as priorities and in areas that the public say are important to their communities. However, the Council is not improving its services as fast as many other district councils.
 - The Council is showing effective leadership on regeneration within the district, including partnership working such as with the Durham Villages Regeneration Company (DVRC) and with a private construction company. 'Heart of the City' and village regeneration initiatives are improving the lives of local people on a scheme by scheme basis, including housing and leisure facilities. However, the Durham councils are not working together well enough to close the gap between economic prosperity in Durham and the rest of the country.
 - The Council has invested considerably in ensuring that it has the capacity and skills to deliver improved services, better productivity and greater customer focus. Levels of sickness absence remain high but are beginning to fall.
 - The Council's medium term financial plan is in line with its corporate aims and objectives and is designed to provide a financial strategy to underpin the Corporate Performance Plan. However, the Council does not yet manage all performance data sufficiently well to enable officers and councillors to manage performance robustly in some services.
- 2 The key messages arising from the audit are as follows.
 - We were able to give an unqualified opinion on the Council's accounts
 - The previous improvement in financial reporting has been maintained with accounts being produced within deadline, presented fairly and containing only a small number of non-trivial errors.
 - The Council considered the views of a range of stakeholders before deciding to publish an annual report.
 - The Council's medium-term final strategy, budgets and capital programme are soundly based and in line with its strategic objectives.
 - The Council has identified its significant partnerships and has ensured that appropriate governance arrangements are in place for each of them.
 - The Council has continued to develop processes to evaluate the effectiveness of recovery actions.

3 Other key messages:

- the Government has decided to take forward the option of local government reorganisation in County Durham. The City Council will demise next year and its functions will be transferred to a new unitary council that will cover the whole of County Durham. Early indications are that the Council is making a positive contribution to making a success of the new council but this early impetus needs to be maintained over the coming months.

Action needed by the Council

- 4** The Council and the new County Durham Council should work within the framework provided by the County Durham Economic Partnership to progress our recommendations in the county-wide inspection of Regeneration. In summary, these were to take steps to strengthen the coherence of regeneration activity and collaboration amongst stakeholders by:
 - starting and maintaining a public debate on the future of Durham's economy;
 - aligning regeneration strategies and strengthen collaboration amongst partners to match the pace of external change, without regard to local government boundaries;
 - considering with partners how the importance of skills and aspirations can be embedded in the culture of County Durham;
 - ensuring that housing strategies align with economic strategies and opportunities and with transport strategy;
 - strengthening leadership on regeneration activity;
 - providing independent capacity to develop and deliver strategy; and
 - reviewing how resources are used to lever in private funding in order to maximise their impact.
- 5** The Council should focus on striving to improve its performance where performance indicators are lower than the average district council performance and where performance fluctuates. It should ensure that all services are better able to manage data to inform the business planning and performance management.
- 6** The key actions needed to further strengthen arrangements are as follows.
 - Ensure that the accounts are supported by exemplary working papers.
 - The Council's MTFS could be improved by including in financial terms joint plans agreed with its significant partners.
 - The Council should specifically consider the risk of fraud and corruption in the overall risk management process.

- 7** In order to provide a smooth transition to the new unitary council for County Durham the Council should continue to:
- prioritise making a positive contribution to transitional working designed to establish the new council;
 - set aside or secure sufficient resources to make the above contribution; and
 - ensure that attention is given to maintaining key public services during the period of transition.

Purpose, responsibilities and scope

- 8 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the Council for 2006/07 and from any inspections undertaken since the last Annual Audit and Inspection Letter.
- 9 We have addressed this letter to members as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Council in meeting its responsibilities.
- 10 This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at www.audit-commission.gov.uk. In addition, the Council is planning to publish it on its website.
- 11 Your appointed auditor, Steve Nicklin is responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, he reviews and reports on:
 - the Council's accounts;
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
 - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 12 This letter includes the latest assessment on the Council's performance under the CPA framework, including our Direction of Travel report, and the results of any inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999. It summarises the key issues arising from the CPA and any such inspections. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 13 We have listed the reports issued to the Council relating to 2006/07 audit and inspection work at the end of this letter.

How is City of Durham Council performing?

- 14 City of Durham 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 updating these assessments, through an updated corporate assessment, in councils where there is evidence of change. However, Local Government Re-organisation has prevented this Council from accessing an updated assessment although it has made progress in its services and the way it works since 2003. 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

- 15 The Council is improving services in areas that it has identified as priorities and in areas that the public say are important to their communities. The Council, with its partners and the local community, has continued to implement a programme of social, economic and environmental regeneration. It has clarified its ambitions for the City and the district by aligning its Best Value Performance Plan, Corporate Business Plan and Medium Term Financial Plan. Over the past year the focus for investment has been in the Council's priority areas and it Council has seen improvements in both outcomes and performance. However, the Council is not improving its services as fast as many other district councils.

- 16 The Audit Commission's 2006/07 Direction of Travel (DoT) basket of performance indicators (PIs) shows that overall the Council's performance was below or at the average improvement for district councils.
- Between 2003/04 and 2006/07, the Council improved its performance in 46 per cent of the DoT PIs, which is well below the district council average of 55 per cent.
 - In 2006/07, the Council has improved its performance in 56 per cent of these PIs, which is slightly below the district council average of 58 per cent.
 - In 2006/07 the Council had 34 per cent of the DoT PIs in the best quartile, which is slightly above the district council average for 2006/07 of 33 per cent but less than the previous year's 43 per cent.
- 17 The greatest improvement over the year was achieved in waste management, cleanliness and land use, with 80 per cent of Council PIs improving (district average 62 per cent), placing 62 per cent of Council PIs in the best quartile (district average 34 per cent).
- 18 Areas where performance was poorer in 2006/7 were:
- eight 'corporate' PIs deteriorated and five of these remained in quartile 3 or 4; however, four of these relate to housing benefit claims, where the introduction of a new computer system and other changes affected performance which has now improved on all these indicators;
 - in regulation, three PIs deteriorated and two remained in quartile 4; all relate to performance on planning applications;
 - in local environment, the PI for cost of waste collection per household deteriorated but remained in the best quartile; and
 - in housing, two PIs deteriorated: the percentage change in the proportion of non-decent homes remained quartile 3 and the percentage change in the number of households in temporary accommodation remained quartile 1.
- 19 The Council's vision focuses on three themes: flourishing communities; quality public services; and Durham as capital city; these are underpinned by ten strategic priorities. Through these, the Council is contributing well to improvements in wider community outcomes.
- 20 The Council is maintaining or improving performance in its **flourishing community** priority areas. It recognises that its operations influence the district's environment, economy and society and continues to make an effective contribution to improving outcomes in the wider community.

- 21 The Council's efforts are supporting regeneration and economic development. Its contribution to the regeneration of the City was acknowledged during 2007 in our inspection of Regeneration; the report, which is summarised in the next section of this Letter, highlighted the Council's understanding of the needs of local communities. The positive outcomes of the Council's investment in village regeneration initiatives, which includes working with the private sector, has been nationally recognised by a British Urban Regeneration Award for best practice in regeneration, awarded in October 2007. The investment is contributing to a range of regeneration projects that are improving the lives of local people. The Council has continued to work with the Local Strategic Partnership (LSP) to support the very successful, annual Future Business Magnates competition aimed at engaging young people from local schools in entrepreneurial activities with local businesses.
- 22 With partners, the Council continues to address community safety issues through a range of multi-agency initiatives. Its involvement is helping to keep most categories of crime and fear of crime below average levels. Domestic burglaries and violent crime increased in 2006/07 but still remained below the level in other areas.
- 23 Through its participation in projects with the Primary Care Trust and other local partners the Council is helping to address community health issues; for example, by introducing a service to help City Care service users return to their homes following discharge from hospital. Leisure services are targeting the needs of young teenagers, minority groups and disabled people by offering extra transport arrangements and reducing admission charges.
- 24 The Council is improving the **quality of local public services** but action is needed in some areas. Housing management has improved in the past year with the average time taken to complete both emergency and non-urgent repairs to Council houses improving substantially, particularly since July 2007 (unaudited data). Progress towards ensuring decent homes is also improving and there is a clear programme and committed investment to achieve the standard for all Council houses by 2010.
- 25 The performance of the Council's environmental services has improved. Recycling and composting rates have risen. In 2006 (the latest available national data) public satisfaction with waste collection and cleanliness of public spaces remained high, but satisfaction with recycling was low. The Council has recently agreed changes in its kerbside collection of materials for recycling. It has recently agreed a sustainable development policy that includes sustainable consumption and production, climate change and energy, natural resource protection, environmental enhancement and sustainable communities.
- 26 The performance of the planning services is mixed. In 2006/07 it did not fully maintain the levels achieved in 2005/06. However, the speed with which minor applications are determined and the quality of service provided have both improved. The Council has identified a number of reasons for fluctuation in performance, including a higher number of applications, increased public interest leading to more consultations and an increase in the number of planning appeals, and it has taken action to improve performance.

- 27 Housing benefit claims performance deteriorated in 2006/07, with the average time to process new claims and change of circumstances remaining in the third and fourth (worst) quartiles respectively. However, the introduction of a new computer system and other changes had adversely affected performance which has now improved. The number of cases processed correctly and the proportion of overpayments recovered remained in the best quartile.
- 28 Public satisfaction with sport and recreation facilities improved and in 2006/07 was almost best quartile. Public satisfaction levels are high for theatres, concert halls, museums, galleries and libraries, but remain relatively low for parks and open spaces.
- 29 The Council has made progress in its **Capital City** priority. There are major developments within the City such as construction of the swimming pool and leisure centre plus alteration, improved access to the Town Hall as a new tourist attraction and successful work to improve the whole tourist experience to encourage tourists to stay longer in the City. These and other initiatives are continuing to keep local levels of unemployment below both national and regional averages.
- 30 Through its Durham City 2020 Vision Masterplan the Council has analysed the existing characteristics of the City Centre and proposed a range of strategies to improve such things as shopping, leisure, entertainment and tourism, residential development, illumination and signing, traffic and transport.
- 31 The Council is active in its support of fair trade, and the City of Durham has been recognised as a Fair Trade City. Fair Trade products are now available in over 20 outlets within the district and the City hosts Fair Trade market events throughout the year.
- 32 The Council is improving access to services for local people and building on the improved public communications it has developed through grant-funded regeneration projects; in partnership with external agencies, it is extending these into the wider community. It has established a forum of staff who routinely work in direct contact with the public. Feedback from this group is helping to inform policy, access and service delivery.
- 33 The Council's CityInfo centres continue to provide direct access for most local people. A customer relationship management system has been implemented successfully and is improving customer service, reducing duplication through improved data sharing and helping to provide more streamlined and efficient service delivery. Electronic mobile working for Benefits Visiting Officers is allowing real time access to information in customers' homes.
- 34 The Council is committed to providing equity in its service provision. It has now achieved Level 2 of Equality Standard for Local Government and has an action plan to achieve Level 3. Equalities training has been provided for managers and there is an agreed programme for undertaking Equality Impact Assessments across services.

- 35 The Council provides good value for money. It sets and achieves ambitious targets to improve efficiency and value for money. Targets are used intelligently to reflect potential for improvement. The Council has integrated efficiency review into its management arrangements and has again exceeded its own and Gershon review targets for achieving efficiency savings. It remains committed to undertaking option appraisal of its services where appropriate; this has been demonstrated in practice with service restructuring resulting in efficiency savings without a fall in the quality of service provision. Expenditure on culture and heritage remains high but this is consistent with the Council's capital city and flourishing communities' priorities. At the Gala Theatre, costs have reduced and attendances have increased.
- 36 The Council also seeks greater efficiencies by working in partnership with others and actively pursues opportunities for joint procurement. Procurement decisions are made to benefit to the wider community by securing economic, social or environmental benefits. An independent procurement health check by the North East Centre of Excellence (NECE) concluded that the Council has a consistent and positive approach to strategic procurement.
- 37 However, the cost of overheads increased slightly in 2006/07 and was above the average for the Council's 'nearest neighbours' comparator group; other councils' overhead costs fell. This increase is the result of the costs of early retirements and capital financing charges on ICT systems. Both costs are incurred for five years only, and both schemes are generating efficiency savings in direct and support services. The Council forecasts that the level of unapportioned overheads will begin to fall from 2010/11 onwards. When compared to its nearest neighbours the Council's band D Council tax has increased below the level of inflation but remains above average.
- 38 Currently, the Council has the capacity to deliver its plans. It has made good progress in organisational and service improvements, although these are not yet all reflected in PI performance. It has undertaken a major restructuring exercise aligning elements within Finance, Strategic Services and Corporate Services to better reflect external demands. All Council projects, including continuous service improvement programmes, are now required to have a business case incorporating benefits realisation. A new Constitution has been agreed which reflects new management structures and incorporates corporate values, particularly those relating to efficiency, transparency and accountability.
- 39 The Council's medium term financial plan is in line with its corporate aims and objectives and is designed to provide a financial strategy to underpin the Corporate Performance Plan. Similarly, the business planning process is integrated with the performance management framework and now aligns achievements and targets with the key aims and objectives of the Council's Corporate Performance Plan. However, the Council does not yet manage performance data sufficiently well to enable officers and councillors to manage performance robustly in all services.
- 40 The Council has invested considerably in ensuring that it has the capacity and skills to deliver improved services, better productivity and greater customer focus. Levels of sickness absence remain high but are beginning to fall.

- 41 However, as local government reorganisation progresses it may result in key staff leaving the Council; this may impact on its ability to maintain and develop its core functions and services. At the same time the Council needs to be making a positive contribution to making a success of the new unitary council for County Durham. The Council will need to plan to ensure that essential services are maintained and that appropriate resources are identified to secure this outcome and to input into planning for the new council.

Service inspections

Regeneration inspection of City of Durham Council

- 42 During 2007 we carried out an inspection of the regeneration services of the Council; the report was published in August 2007. The inspection resulted in two judgements: the service was found to be 'good', but the prospects for improvement were found to be 'uncertain'.
- 43 The key findings from the inspection were as follows.
- The Council has a clear vision for the regeneration of the district and priorities which reflect the needs of local communities, but it is not always clear how its actions contribute to regional priorities. At the time of this inspection, regeneration services had not made full use of potential joint working with other councils.
 - The Council is showing effective leadership on regeneration within the district, including partnership working such as with the Durham Villages Regeneration Company (DVRC) and with a private construction company. 'Heart of the City' and village regeneration initiatives are improving the lives of local people on a scheme by scheme basis, including housing and leisure facilities.
 - The Council has been effective in securing external funding and it has robust systems to ensure that capital projects address corporate priorities. It has established effective controls to help deliver its priorities for regeneration and to identify the long-term financial implications of projects.
 - The economic development service and its partners engage well with new and existing businesses to provide support and advice. The tourism service provides a good facility at its tourist information centre (TIC) in Durham City but although visitor satisfaction is high, usage is low.
 - The Council has clearly defined its plans for improvement but its regeneration services have still to fully implement a number of the arrangements, such as effective performance management, target setting and identifying whether value for money is being achieved.
 - The Council is improving the skills of staff and councillors through a programme of training and development to address identified needs but councillor participation in training in a number of areas was very low at the time of the inspection.

County-wide inspection of Regeneration

- 44 During 2007 we also carried out a county-wide inspection of Regeneration, covering all eight local councils in County Durham. The report was published in August 2007. The key findings were as follows.
- Councils are providing good regeneration services individually. However, in spite of much external funding and considerable resource contributions of their own, they are not collectively closing the gap in prosperity between Durham and the rest of the country. There is also little evidence that the gaps between the most disadvantaged and rest of region are closing.
 - Strategic leadership on the economy in Durham has been weak. When councils and partners work together then making good progress and identify and develop some real opportunities, but there are not enough examples of this. Councils tend to work within their own boundaries rather than across geographical areas (this is in part driven by external funding arrangements).
 - While there seems a general acceptance that part of the solution is to work at city region scale to widen and deepen markets, County Durham does not seem clear on its relationship to the two City Regions of Tyne and Wear and Tees Valley.
 - Identification of local needs is weak: there is a lack of engagement with key stakeholders and little sharing of information about local needs. This includes insufficient engagement with, and understanding of, businesses and their needs, eg for skills development. Intelligence and data are not shared between councils.

The audit of the accounts and value for money

- 45** Your appointed auditor has reported separately to the Council on the issues arising from our 2006/07 audit and has issued:
- an audit report, providing an unqualified opinion on the accounts of Durham County council as well as the Pension Fund;
 - 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 and published in accordance with the statutory requirements.

Use of Resources

- 46** The Use of Resources score is derived from the assessments made by the auditor 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).
- 47** We have assessed the Council's arrangements for use of resources in these five areas as follows.

Table 1

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

(Note: 1 = lowest, 4 = highest)

The key issues arising from the audit

- 48 The key issues arising from the audit, as reflected in the above judgements where appropriate, are as follows.
- We were able to issue an unqualified opinion on the Council's accounts and conclude that adequate arrangements were in place to secure value for money.
 - The previous improvement in financial reporting has been maintained with accounts being produced within deadline, presented fairly and containing only a small number of non-trivial errors.
 - The Council considered the views of a range of stakeholders before deciding to publish an annual report.
 - The Council's medium-term final strategy, budgets and capital programme are soundly based and in line with its strategic objectives.
 - The Council has identified its significant partnerships and has ensured that appropriate governance arrangements are in place for each of them.
 - The Council has continued to develop processes to evaluate the effectiveness of recovery actions.
- 49 The key actions needed to further strengthen arrangements are as follows.
- Ensure that the accounts are supported by exemplary working papers.
 - The Council's MTFS could be improved by including in financial terms joint plans agreed with its significant partners.
 - The Council should specifically consider the risk of fraud and corruption in the overall risk management process

Local risk work

- 50 A key component of the Audit Commission's national strategy for improving the impact of local audit and performance work, and delivering strategic regulation, is to carry out integrated reviews which cut across a number of public bodies and help improve the quality of life for local people. Work has been included in audit and inspection programmes across the North East for 2006/07 on two key cross-cutting themes, health inequalities and regeneration.

Health inequalities

- 51 Partnership working is helping to improve the North East's health outcomes but more needs to be done to close the gap between the North East and the rest of England. Life expectancy is lower, rates for sickness and disability are twice the national average, and smoking mortality rates are among the highest in England. There is also a high prevalence of obesity, increasing sexual health infection rates and serious alcohol and substance misuse issues.

- 52** Tackling health inequalities is a high priority for the Government, which has been increasingly encouraging health trusts to work in partnership with local public bodies and the voluntary sector to improve health and reduce inequalities through a number of initiatives, targets and legislation. The factors causing health inequalities are complex and can best be addressed through agencies working together.
- 53** The Audit Commission, Deloitte and PricewaterhouseCoopers have reviewed how organisations across the North East are working together to address health inequalities, culminating in a workshop in October 2007 for 200 representatives from the NHS, local government and the many voluntary sector agencies involved in tackling health inequalities, where we identified seven key challenges.
- Challenge 1: Develop arrangements to evaluate projects and ensure continued funding of those that deliver tangible outcomes, and to embed this learning in project planning and performance management systems.
 - Challenge 2: Gather intelligence on where gaps in services exist and a profile of those accessing services. Target services at those areas and individuals where there is unmet need and develop strategies to target hard to reach groups.
 - Challenge 3: Ensure local area agreements contain a breadth of targets to reduce health inequalities, across all sectors and ensure health and wellbeing strategies are translated into local delivery plans that contain sufficient detail and local targets to monitor progress.
 - Challenge 4: Spread awareness of priorities and services on offer and provide networking opportunities and information sharing systems to improve the links between service planners and service providers. Cascade messages and targets to front line workers such as teachers, health professionals and social workers.
 - Challenge 5: Use the Regional Health and Wellbeing Strategy to provide direction for the North East and link national, regional and local policies. Develop networking opportunities and support to share good practice to achieve the aim of transforming the North East into the healthiest region in the country within a generation.
 - Challenge 6: Give community and voluntary sector organisations increased certainty over funding with agreed delivery targets and simplify commissioning arrangements to make it easier for them to bid for the provision of services.
 - Challenge 7: systematically seek community views to influence how and where services are provided.
- 54** A report summarising the work to date was distributed widely to inform future development and improvement. We will be building on this work in the coming year, focussing in on specific areas, identifying good practice and helping to identify and overcome barriers to improving health outcomes in the North East.

Looking ahead

- 55 The public service inspectorates are currently developing a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 56 Even though the Council will demise from 31 March 2009 it still has a key role in establishing the foundations of the new council and enabling it to respond to the future challenges of both new local area agreements and public expectations of service improvements leading to a better quality of life that will be assessed under CAA.

Closing remarks

- 57 This letter has been discussed and agreed with senior officers. A copy of the letter will be presented at the cabinet meeting on 4 June 2008. Copies need to be provided to all Council members.
- 58 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

Table 2 Reports issued

Report	Date of issue
Audit and inspection plan	March 2006
Annual Governance Report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Regeneration inspection of the Council	August 2007
Regeneration inspection of County Durham (covering all eight councils in the county)	August 2007
Direction of Travel report (within Annual Audit and Inspection Letter)	March 2008
Annual Audit and Inspection Letter	March 2008

- 59 The Council has taken a positive and constructive approach to audit and inspection work, and we wish to thank the Council's staff for their support and cooperation.

Availability of this letter

- 60 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

Steve Nicklin
District Auditor

March 2008

AUDIT OVERVIEW COMMITTEE

23 JUNE, 2008

REPORT OF THE DIRECTOR OF FINANCIAL SERVICES

ANNUAL GOVERNANCE STATEMENT 2007/08

1.0 Background Information

- 1.1 At the end of 2002 the Office of the Deputy Prime Minister consulted on amendments to the Accounts and Audit Regulations 1996. Statutory instrument 2003/533, the Accounts and Audit Regulations 2003, came into effect on the 1st April 2003 and the 1996 regulations were revoked.
- 1.2 With the introduction of the Accounts and Audit Regulations 2003, local authorities were obliged to review the effectiveness of its system of internal control each year and publish, alongside the statement of accounts a signed statement on internal control (SOIC). The main purpose of the Statement of Internal Control is to improve local authority corporate governance and accountability.
- 1.3 In terms of internal control, the most significant changes brought about by the Accounts and Audit Regulations 2003 were:
 - ♦ An explicit recognition that authorities have a corporate responsibility for their financial management and system of internal control including risk management, whilst not affecting the specific duties and responsibilities of the section 151 officer;
 - ♦ Requirements for an authority to review each year the effectiveness of its system of internal control and to publish, alongside the accounts, a statement on internal control;
 - ♦ Requirements for authorities to follow proper internal audit practices;
 - ♦ The bringing forward of the deadlines for approval and publication of accounts; and
 - ♦ An extension to the period for the exercising of rights of inspection.
- 1.4 The statement itself (Attached at Appendix A) is broken down into a number of categories outlining the specific evidence required to support and comply.
- 1.5 Further changes introduced as a result of the Accounts and Audit Regulations 2006 required that Internal Audit and the Audit Overview Committee should be subject to an annual independent review, with the results of the review becoming part of the Statement.
- 1.6 The publication of the 2007 CIPFA/SOLACE Governance Framework represents a further change in the available good practice guidance for authorities. The new guidance recommends that the review of the effectiveness of the system of internal control that local authorities are required to undertake under the Accounts and Audit regulations should be reported in an Annual Governance Statement. The new guidance incorporates

the six governance principals from the Governance Framework into section one of the existing SOIC. These provisions are mandatory for 2007/08.

2.0 Corporate Governance Working Group

2.1 The Council already had in place, a Statement of Internal Control Working Group (SOICWG) consisting of representatives of all services, including the Council's Monitoring Officer, Section 151 Officer and the Head of Internal Audit. It was therefore considered appropriate to merely amend the name of the Group (this is now known as the Corporate Governance Working Group (CGWG)) whilst retaining the same Group members and amending the terms of reference to include the six governance principals included within the CIPFA/SOLACE framework – as adopted.

2.2 The main functions of the group continue to be to:-

- ◆ Establish protocols to examine and collate evidence in support of the requirements of the Act;
- ◆ Ensure that all Directors, Heads of Service and Senior Managers are aware of the need to ensure that the evidence requirements are communicated and understood by their own staff in respect of their service areas;
- ◆ Embed the need to constantly review systems of internal control within their areas of responsibility which had not been subject to audit or external inspection during the year
- ◆ Develop appropriate methods of assurance; and
- ◆ Ensure that the evidence requirements were met and that a draft statement of Internal Control is prepared in accordance with the SORP
- ◆ Ensure that the six governance principals are incorporated into the process

2.3 The Group meets on a regular basis during the year and monitors progress against an action plan developed to improve internal control and corporate / financial governance arrangements within the Council - updating the available evidence where appropriate. The Group also agrees the draft Annual Governance Statement before it is submitted to Officers Management Team and then to the Audit Overview Committee for approval.

3.0 Collation of evidence

3.1 The Head of Internal Audit has developed a spreadsheet based checklist of the standards required. This is used to log and record appropriate evidence and members of the CGWG measure adherence to the standards by reviewing the evidence available.

4. The Annual Governance Statement

4.1 The format and structure of the statement is prescribed in guidance contained within the Statement of Recommended Practice 2007 (SORP) and is broken down into a number of different sections. The terminology used is therefore consistent across all authorities. These are:-

- ◆ Scope of Responsibility;

- ♦ The purpose of the Governance Framework;
 - ♦ The Governance Framework – incorporating details of the internal control environment i.e. the systems, procedures and processes by which the Council directs and controls its functions, including the formulation of strategy, its objectives and how it delivers services to meet those objectives;
 - ♦ Review of Effectiveness – which sets out details of a review of the Governance Framework set out above and which is informed by the work of internal audit, service managers, external auditors and other review agencies and inspectorates; and
 - ♦ Significant Governance Issues – the Council must identify any areas of significant internal control, including what action is being taken to address them.
- 4.2 The statement is compiled by the Head of Internal Audit, based on a number of different criteria and in accordance with guidance contained within the SORP. The statement reflects the current position within the Council at a given time, however, should any major concerns arise between the production of the Statement and the date that the Statement is approved then this must be brought to the attention of the Head of Internal Audit and the statement amended to reflect the new position.
- 4.3 The statement is evidence based and relies on written assurances from Directors and Heads of Services across the Council (who prepare a standardised comprehensive assurance statement on an annual basis); Internal audit's views, having carried out a number of audit assignments during the year and commented on the assurance given by each; external auditors and other review agencies and inspectorates and the assurances contained within their reports to the Council.
- 4.4 The draft statement is then discussed and agreed by members of the Corporate Governance Working Group, where some minor amendments may be carried out. The statement is then submitted to the Officers Management Team for discussion and then to Audit Overview Committee with the Statement of Accounts for approval before submission to full Council.

5.0 RECOMMENDATION

- 5.1 That the members of the Audit Overview Committee consider the content of the 2007/08 Annual Governance Statement (as attached) and approve it for consideration / formal adoption by Council on 30 June 2008.

ANNUAL GOVERNANCE STATEMENT

1. Scope of Responsibility

The City of Durham District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The City of Durham District Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the City of Durham District Council is also responsible for putting in place proper arrangements for the governance of its affairs and for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

The City of Durham District Council has approved and adopted a code of corporate governance, (the Local Code) which is consistent with the principles of the CIPFA/SOLACE Framework *Good Governance in Local Government 2007*. A copy of the code is available from the council's website at <http://www.durhamcity.gov.uk/Pid/10016> (Part 5 Codes and Protocols refers) or can be obtained from The Monitoring Officer, Head of Legal and Strategic Services, 17 Claypath, Durham, DH1 1RH.

This statement explains how City of Durham District Council has complied with the code and also meets the requirements of Regulation 4(2) of the Accounts and Audit regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 including circular 03/2006 which replaces the publication of a statement on internal control with an annual governance statement

2. The purpose of the governance framework

The governance framework comprises the systems and processes for the direction and control of the authority and its activities through which it accounts to, engages with and leads the community.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives; and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the City of Durham District Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at City of Durham District Council for the year ended 31st March 2008 and up to the date of approval of the Council's annual report and statement of accounts.

3. The Governance Framework

The Corporate Performance Plan sets out and focuses attention on corporate priorities, and in particular, the authorities "Vision".

The Plan is not intended to be a comprehensive statement of everything the Council hopes to achieve over the next three years and focuses on key issues only. It outlines the main issues affecting the district, describes the Vision of the Council and sets out our main priorities for the next year and longer term for the next three years. It sets out how these important priority issues will be addressed within the overall aim of bringing about real change through such corporate efforts of the Authority, working on its own and in partnership with others.

The Plan matches the Council's activities to the environment in which it operates and to the resources it expects to have available over the next three years. It provides a focus and a framework for the planning and management of services and sets out the main aims and outcomes that need to be achieved.

The Council is committed to working in partnership with the community to deliver caring, open and efficient services. This Plan attempts to make more effective and joined up service delivery a reality, especially when tackling social exclusion. The Council plans to deliver real and positive change and help shape and accelerate action to secure a new, vibrant, and sustainable Durham City. To do this, the Council's resources and efforts and those of its partners need to be concentrated on the most important challenges facing the area.

The Council has identified those areas that are priorities and where investment should be targeted and in some cases the Council has been able to direct resources into services that would otherwise be a lower priority by using them as a vehicle to deliver wider regeneration and social inclusion objectives.

Detailed service Plans inform this Corporate Performance Plan enabling the Council to further develop and embed performance measures and targets for each service area. This allows the Council to more accurately gauge performance and progress made against the strategic aims and objectives that it has set itself and also measure the Council's contribution to the outcomes of strategic partnerships such as the Local Strategic Partnership and County Wide Local Area Agreement

Supporting and underpinning the Corporate Performance Plan, is the City Council's Medium Term Financial Plan and Corporate Capital Strategy / Asset Management Plans, which set out in financial terms how resources will be allocated and used to address corporate priorities and stakeholder needs within the District. A copy of the Medium Term Financial Plan and Corporate Capital Strategy / Asset Management Plans can be found on the Council's website at www.durhamcity.gov.uk

The City Council has established a number of inter-departmental working groups to support the delivery of its strategic aims; including Corporate Strategy, Risk Management, Children and Families, Flourishing Communities, Customer Services, Community Services, Human Resources, Equalities, Internal Communication, Efficiency, Information Technology, Performance, Asset management and Capital Works.

The Council's Constitution sets out how the Council operates how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable. A copy of the Constitution can be found on the Council's website at www.durhamcity.gov.uk

The Council's policy and decision making is facilitated by the establishment of a Cabinet system, supported by a scrutiny function and a standards committee. Meetings are open to the public except where personal or confidential matters are being disclosed. Senior members and officers can also make decisions under delegated powers. The Constitution contains details of decisions to be made by the Council, its committees and contains details of those powers delegated to members and officers.

The Council has adopted a “Local Code of Corporate Governance” in accordance with the recently updated CIPFA/SOLACE Framework for Corporate Governance. The code contains appropriate reporting and monitoring procedures. A copy of the Code can be found on the Council’s website at www.durhamcity.gov.uk. A Standards Committee, consisting of nine persons, including four Council members (excluding the Leader of the Council); three independent persons (who are neither councillors or officers of the Council) and two Parish Council members (mainly in the Council’s area) exists to ensure compliance with the code.

The City Council has designated the Head of Legal and Strategic Services as Monitoring Officer. It is the function of the Monitoring Officer to ensure compliance with established policies, procedures, legislation and regulations.

The Council has an inclusive culture. Weekly management team meetings are held, where the Chief Executive (Head of the Paid Service) chairs meetings of all Chief Officers and Heads of Service (including the nominated Monitoring Officer and Section 151 Officer). Corporate and service issues are disseminated from this meeting via team briefings, in accordance with the City Council’s Internal Communications Strategy. Legislative updates are standing items on the Agenda and all draft Cabinet reports are considered at this meeting. Further departmental/service meetings are held to ensure communication and performance management arrangements are fully embedded. Regular staff newsletters (Communication Matters) are issued to all employees.

The Council has developed robust systems for identifying and evaluating all significant strategic and operational risks – the Council maintains up to date strategic and operational risk registers. The Council again reviewed and updated its Risk Management Strategy in 2007/08. A cross-department Risk Management Working Group, chaired by the Director of Strategic Services, and attended by Directors/Heads of Service, senior managers and leading members, exists and operates in accordance with best practice. The management of risks has been allocated to appropriate individual officers and risks are constantly reviewed. Extensive risk management training has been carried out for all appropriate officers and members. The use of control risk self assessment forms to highlight and review business risks continue to be utilised as part of the audit process. Regular progress reports in respect of embedding risk management arrangements, together with an annual report are presented to both the Council’s Audit Overview committee and Cabinet.

The Head of Internal Audit prepares an annual audit strategy and risk based audit plan. This is underpinned by the Internal Audit Service Plan, Audit manual and Internal Audit Protocols.

The Council has an Audit Overview Committee in place to independently monitor and review the work of internal audit, the council’s risk management processes, the council’s corporate governance arrangements, and the council’s arrangements for seeking assurance and evidence in support of the Annual Governance Statement.. Terms of reference for the Audit Overview committee fully meet the standards laid down by CIPFA. The Committee meets on a quarterly basis during the year, and the Head of Internal Audit has direct access to the Chair. The Audit Overview Committee reviews and scrutinises the Council’s Annual Statement of Accounts and the Annual Governance Statement before submission to Council.

Through reviews by internal audit, external agencies, external audit, performance review and Best Value, the Council constantly seeks ways to ensure the economical, effective and efficient use of resources and for securing continuous improvement in the way in which its functions are exercised.

The financial management of the authority is conducted in accordance with the financial rules set out in the constitution, and in accordance with financial procedure rules and financial regulations and the Statements of Recommended Practice 2007. Section 151 of the Local Government Act 1972 requires that every local authority in England and Wales should ...'make arrangements for the proper administration for their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs'. The Council has designated the Director of Financial Services as its Responsible Financial Officer. In discharging this statutory responsibility, the Director of Financial Services has five key roles within the Council: -

- maintaining strong financial management underpinned by effective financial controls
- contributing to corporate management and leadership
- supporting and advising democratically elected representatives
- supporting and advising officers in their operational roles
- leading and managing an effective and responsive financial service

The Director of Financial Services has fully and effectively discharged these duties and the financial governance arrangements in place are considered robust and are underpinned by the preparation of regular financial reports, which indicate actual expenditure against budget, together with key Balance Sheet items.

Details of key controls for all of the authorities systems have been distributed to Heads of Service and form the basis of scoping activity for reviews undertaken by Internal Audit. They assist managers in determining the level of internal controls for systems under their responsibility that have not been subject to an internal audit review during the relevant period.

The Council has undertaken a Business Impact Analysis to identify and prioritise the functions that it performs when delivering its business and services. This has allowed the Council to identify its business critical functions, which would need to be prioritised in an emergency or business disruption situation. From this the Council, with the support of the County Durham and Darlington Civil Contingencies Unit has developed a Business Continuity Plan outlining a number of strategy options aimed at reducing the impact of a business interruption. The Plan clearly sets out, on a building by building basis, the services and critical functions that operate within that building and the key resources required to carry out the critical functions should access to that building be denied. The City Council is in a better position to effectively respond to a business interruption as a result of this work. The Risk Management Working group has reviewed this Plan and has improved the supporting arrangements. The Council has also strengthened its Emergency Planning arrangements through participation in a series of workshops and incident response exercises, facilitated by the County Durham and Darlington Civil Contingencies Unit.

The Council has an effective performance management framework that is driven by the Corporate Plan which focuses attention on corporate priorities. This is linked to detailed service plans, employee's performance development reviews (PDR) and action plans. The Council's Scrutiny Committee monitors progress against targets and individual/team performance in priority areas affecting the main service areas, and considers and approves corrective action where necessary. Performance clinics, consisting of Cabinet Members and Senior Officers, meet regularly to monitor overall performance and to review key performance indicators on a quarterly basis with regard to service and national targets.

4. Review of Effectiveness

The City of Durham District Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of the effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report and also by comments made by the external auditors and other review agencies and inspectorates.

The governance framework and system of internal control refers to the system by which the City Council directs and controls its functions and relates to the community it serves. It is therefore the totality of the policies, management systems, procedures, and structures that together determine and control the way in which the City Council manages its business, formulates its strategies and objectives and sets about delivering its services to meet those objectives.

The governance framework and system of internal control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Council to facilitate its effective and efficient operation by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks to achieve the authority's objectives.

The City Council's governance framework and system of internal control reflects its control environment which encompasses its organisational structure. In particular, the system includes control activities, information and communication processes and processes for monitoring the continuing effectiveness of the governance framework and the system of internal control; the Council has established the following processes to achieve this aim:-

- The Council has established a Corporate Governance Working Group consisting of Directors, Heads of Service and Senior Line managers which is chaired by the Head of Internal Audit. The group monitor and react to any changes to the annual governance framework, review and collate evidence in support of the Annual Governance Statement, and approve the Annual Governance Statement before submission to the Audit Overview Committee for consideration and council for approval.
- A small sub group of the Corporate Governance Working Group independently review the work of the Internal Audit Service and the Audit Overview Committee on an annual basis in accordance with the Accounts and Audit regulations 2003 (amended) A formal report has been considered by the Audit Overview Committee in this respect with the committee concluding that suitable arrangements are in place.
- All Directors and Heads of Service are expected to keep under continual review the internal control processes of systems under their responsibility, particularly where such systems have not been reviewed by Internal Audit in that year. This is to ensure continued adherence to 'key' internal controls identified for all major systems and communicated to Heads of Service by Internal Audit.
- As part of this continual review process Directors and Heads of Service are also required to complete and sign an annual assurance statement outlining the key features of the systems of internal control, within their area of responsibility. This allows them to identify whether the arrangements set out are in place and operating effectively, identify problems encountered and set out action that has been taken or is proposed to address those issues.

- The council has in place Executive arrangements based on the Leader Cabinet model. Cabinet meets regularly to consider the plans and strategic direction of the Council. Ruling and opposition members are represented on each committee according to the rules laid down in the Council's agreed Constitution. The cabinet includes the leader of the two opposition parties (on a non-portfolio holding basis)
- The Head of Legal and Strategic Services (the 'Monitoring Officer') has a duty to monitor and review the operation of the Constitution to ensure that its aims and principles are given full effect. The Constitution is regularly reviewed throughout the year, and all amendments are agreed by Council.
- The Council reviews compliance against the adopted local Code of Corporate Governance and routinely on an annual basis adopts an action plan to deal with any issues that arise.
- Scrutiny committees review the decision making process to consider whether a decision is appropriate. They also undertake a number of reviews of key areas and make recommendations to Cabinet for consideration. The Council has four Scrutiny Committees to scrutinize the work of Cabinet and Officers and to assist the Cabinet in developing proposals. These Scrutiny Committees comprise of 12 Councillors' on each and are politically balanced to ensure full representation of the various political groups.

These four Scrutiny Committees examine the effectiveness of policies, practices and service delivery by the Council. They can ask the Cabinet and the Council's Officers to give full account of what they do and how they deliver services and can 'call in' decisions made by the Cabinet or Cabinet Members for review or reconsideration prior to implementation.

Scrutiny can make recommendations to the Cabinet and full Council, on existing and proposed new policies, whilst also providing an essential check and balance on the Cabinet and have an important role to play in the Council's Budget setting process.

- Performance clinics meet quarterly to review progress on PI's within the corporate performance plan. Annually internal audit reviews key performance indicators in accordance with guidance provided by the audit commission to ensure the use of the correct definition and calculation before publication of the authority's annual performance plan.
- The Council annually reviews its Financial Procedure rules, Contract Procedure rules and Financial Regulations where necessary. All amendments are agreed by Council.
- The Council has effective governance arrangements in place for its joint venture company Durham Villages Regeneration Company (DVRC) There is cross party executive membership of the board of DVRC drawn from the Cabinet. The Executive Director is also appointed to the Board. Board meetings are held quarterly and the Board approves an annual business plan and receives regular monitoring reports, which includes financial performance information. The Council receives an audited copy of the Companies annual accounts, which is incorporated in the Council's Statement of Accounts as part of the Group Accounts statement. Council Officers are signatories to the Companies bank account with all payments being approved by them. As part of the articles of association the Company has an open book arrangement. This gives the Council's internal and external auditors the ability to inspect the company's records at any time.
- The Audit Overview Committee reviews the adequacy of internal controls, monitors the performance of Internal Audit, agrees the internal and external audit plan, reviews risk management arrangements, oversees corporate governance

requirements, and approves the Council's year end accounts and Annual Governance Statement prior to formal consideration by Council.

- The risk management group annually review the risk management strategy, to ensure continued relevance to the Council. With the development of the Strategic and Operational risk registers and nomination of risks to individual officers risks are continually monitored. The Council's Cabinet formally approve/adopt the Strategic Risk Register.
- The risk management group reports on a quarterly basis to Audit Overview Committee and Cabinet bringing their attention to significant risks. and an annual report is prepared for consideration by both of these.
- Internal Audit annually reviews the effectiveness of the Council's risk management arrangements.
- The Standards committee promotes and maintains high standards of conduct of Councillors and co-opted Members; assisting the Councillors and co-opted Members to observe the Members' Code of Conduct. A new Model Code of Conduct for Local Authorities was laid before Parliament on the 4 April 2007 and came into force on the 3 May 2007. The Standards Committee approved the adoption of the New Model Code of Conduct as drafted but with the addition of a requirement that all offers of gifts and hospitality, whether accepted or not, over the value of £25 should be declared and recorded in the appropriate register.
- Internal audit, monitor and review the quality and effectiveness of internal control. The audit plan is developed in line with best practice using a robust risk model, informed by the annual audit strategy and is approved by the Audit Overview Committee. The audit methodology is contained within the Audit manual which is largely based on the CIPFA model, and reflects the standards defined by the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006, and meets the requirements of the Accounts and Audit Regulations 2003 (amended) Reports for each audit are submitted to relevant line managers and Heads of Service where appropriate. Reports include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the relevant Service's system of internal control, together with recommendations for improvements that are contained within an action plan and require agreement or rejection by line managers. Recommendations are prioritised according to risk. The process is subject to escalation where agreement cannot be reached, and includes quarterly reviews of recommendations to ensure that they are acted upon.
- The Internal audit section is subject to regular inspection by the Council's external auditors who report annually to the Council. The external auditors place great reliance on the work carried out by the section.
- An annual review of the Councils Corporate Governance arrangements, together with the arrangements that the Council has in place to detect and deter fraud and corruption is carried out by Internal Audit.
- Robust arrangements are in place for budgeting and strong and continuously improving budgetary control arrangements are in place and have been maintained throughout the year. These are also reviewed annually by Internal Audit
- The Council has developed a partnership toolkit to ensure that robust arrangements are put in place for any future partnerships. All significant partnerships have been identified in an electronic partnership register and the Council has assessed the risks of all partnerships. A report reviewing the effectiveness of the Council's arrangements with its major partnerships will be presented to Cabinet for consideration in July 2008.

In summary, the governance framework and the system of internal control in place at the City Council for the year ended 31st March 2008 and up to the date of approval of the annual report and accounts and, except for the details of internal control issues at section 5 accords with proper practice.

Declaration of those “Charged with Governance”:

“We have been advised on the implications of the result of the review of the effectiveness of the governance framework and system of internal control by the Authority, the executive, the Audit Overview Committee, the Councils Scrutiny Committees and the risk management group (as set out above), and are satisfied that plans to address weaknesses and ensure continuous improvement of the governance system is in place”.

5. Significant Governance Issues

The City Council has identified the following governance and internal control issues worthy of inclusion in the 2007/08 Annual Governance Statement:

- The Council implemented a new Housing Rents system in June 2007; however recovery action was unavoidably suspended for a number of months preceding and post implementation of this new system. This situation was exacerbated by staff shortages within the recovery team during the year. The new system is now fully embedded, with improvements in reconciliation and control now also being realised. In addition, the service has been restructured following the withdrawal of the rent collection service in April 2008 and additional investment made in the recovery team, who are now working towards clearing any backlog / build up of arrears as a result.
- An internal audit review in the year raised concerns over the level of sundry debtor write offs which resulted from services not providing supporting information to the legal section to enable further recovery action to be taken. This was highlighted via Corporate Officers Management Team and agreed processes reinforced.
- The Local Government Review process brings with it a number of risks, in particular with regard to staff turnover. This may leave the Council exposed and less able to provide front line services if the right skills mix is not maintained. There is also a need to support Customer Services which can put an additional strain on resources. The situation will be constantly monitored and appropriate action taken where necessary in the coming transition year under a Mutual Aid Protocol that exists between the Durham authorities.
- The development of the audit strategy and audit plan for 2008/09 has specifically targeted only high risk critical business systems as well as ensuring that sufficient resources are available to support the Local Government Review process, both in house and within the County via the mutual aid / shared resources protocol.
- All new Information Technology project development and investment has been suspended as a result of Local Government Review. Support will continue to be provided for critical business systems when required.
- To further embed governance arrangements in relation to partnerships, action will be taken where appropriate to address weaknesses in governance arrangements for individual partnerships.
- Having achieved Level 2 of the Equality Standard, the cost and resource allocation needed to achieve level 3 is significant. The Council will continue to move forward on diversity issues but its target of achieving Level 3 will not be met prior to the creation of the new Unitary Council.

- The Council have made progress on reducing sickness absence levels but more work is needed to ensure the trend continues throughout this year.
- The Council continues to experience problems with the configuration of its telephony Call Management systems which impacts on its ability to deal with customers as well as it would like to. Whilst some corrective action has been taken, significant investment is required in the system if the problems were to be fully resolved, which could not be justified in the current circumstances. The situation will continue to be monitored during the coming year

Declaration of those “Charged with Governance”:

“We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.”

Signature of the Leader of City of Durham Council	Date
	30 June 2008

Signature of the Executive Director	Date
	30 June 2008

Signature of the Director of Financial Services	Date
	30 June 2008

CITY OF DURHAM

AUDIT OVERVIEW COMMITTEE

23rd JUNE 2008

REPORT OF THE DIRECTOR OF FINANCIAL SERVICES

ANNUAL REPORT OF INTERNAL AUDIT ACTIVITY 2007/08

1. INTRODUCTION

1.1 This report will cover:-

- ◆ The Role of Internal Audit
- ◆ Staff Establishment
- ◆ The 2007/08 Audit Strategy
- ◆ The 2007/2008 Annual Audit Plan Out-turn

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 Annual Governance Statement

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 the duty to deliver Best Value and the requirements of the Comprehensive Performance Assessment. (CPA)/Use of Resources Assessment Framework
- g) The underlying principles of good governance are complied with.
- h) The Annual Governance Statement is adequately supported by appropriate and timely evidence, particularly in relation to assurance statements etc.

3. STAFF ESTABLISHMENT

3.1 The Internal Audit Section forms part of the Financial Services Directorate and 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 Financial Services who is the City Council's "Responsible Financial Officer" – a statutory appointment required in accordance with section 51 of the Local Government Act 1972. The Head of Internal Audit also has direct access/reporting to the Officers Management Team and Audit Overview Committee and attends both to present Internal Audit reports.

4. THE 2007/08 AUDIT STRATEGY

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 both strategic and operational levels. Planning also enables Internal Audit to demonstrate both internally and externally that they are making best use of its finite 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 In 2007/08, and in accordance with best practice, Internal Audit replaced the historical medium to long-term audit strategy with a process called continuous audit planning. This involves an in-year assessment of risk to prioritise those areas where internal audit resources would be best utilised, together with the production of a one year audit strategy and audit plan.
- 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 continues to 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 Annual Governance Statement.

- 4.4 The further development and strengthening of business planning throughout the Authority during 2006/07 and 2007/08 (including the establishment of tangible links to the Authority's corporate priorities and the further embedding of risk management) and a 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 Audit Strategy is regularly updated as new initiatives are identified. Risks continue to be 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 is reviewed annually and is subject to a full risk review. Results are not only used to update the audit risk matrix but are also fed back into the Council's risk register.
- 4.6 To ensure continued compliance with International Auditing Standards, The Head of Internal Audit has identified and informed the Audit Commission of all systems that are considered to be business critical (these are highlighted in the Audit Plan) All of these systems are reviewed on an annual basis.
- 4.7 The simplified control risk self assessment forms first introduced in 2005/06 and which are completed by internal audit on behalf of Heads of Service and Senior Line managers were again utilised in 2007/08 and will continue to be reviewed at the pre audit meeting.
- 4.8 As the Audit Plan is primarily risk based, all areas of audit activity identified as low risk have been removed from the audit plan. However, all auditable areas will continue to be subject to a risk review on an annual basis.

- 4.9 The strategy for 2007/08 was designed to be much more flexible than in previous years. This was to enable Internal Audit to react quickly to any areas of concern raised by Directors/Heads of Service.

5. 2007/2008 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, Directors, 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 Directors/Heads of Service/Senior line managers of the relevant Service will highlight any problems that may be encountered during the audit, and 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 Corporate Governance Working group undertook this task for the financial period 2007/08. A report showing the results of this review was submitted to a meeting of the Audit Overview Committee on the 31st March 2008 and was approved.
- 5.9 The original Audit Plan for 2007/08 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 52 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 which include all major financial 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 2007/2008 covered 14 audit assignments, details of which are highlighted at Appendix A

- 5.11 In the period 1st April 2007 to the 31st March 2008, the following work was undertaken and compares to the plan as shown below:

2006/07		2007/08		
Actual Audit Days		Planned Audit Days	Actual Audit Days	Variance
517.47	Non productive time	460.00	557.50	97.50
232.47	Management & Admin (non chargeable)	244.00	305.27	61.27
71.26	Management & Admin (chargeable)	87.00	38.60	(48.40)
20.89	Follow ups	40.00	39.03	(0.97)
444.52	Audit Plan	580.00	445.40	(134.60)
178.77*	Contingencies & Special Investigations	155.00	149.17**	(5.83)
1,465.37	Total	1,566.00	1,534.97	(31.03)

* No additional audit work was charged to contingency in 2006/07.

** 72.07 audit days relating to additional audit work was carried out in 2007/08 and charged to contingency.

A more detailed analysis is given in Appendix A

- 5.12 The original 2007/2008 Audit Plan comprised 52 specific audit assignments. Following significant levels of sickness during the year, a revised plan (reported to Audit Overview on the 31st March 2008) still comprising of 52 assignments was approved. However, the actual makeup of the plan was substantially amended to reflect additions, withdrawals and carry forwards. At the 31st March 2008 47 assignments (90%) had been completed of which 2 were at draft stage. Testing was still being carried out on a further 5 assignments which were all nearing completion, and these together with the 2 assignments at draft stage were carried forward for completion in 2008/2009.
- 5.13 Of the 14 assignments covering the main financial systems 13 were completed (1 to draft stage) by the 31/03/08. The remaining financial system 08/36 (Housing Rents) was carried forward to 2008/2009.
- 5.14 All outstanding audit activity for 2007/08 was subsequently completed by the end of May 2008 apart from 08/06 (IT Application controls) which will be completed later in the year. This means that 51 of the 52 07/08 audit assignments are now completed compared to 47 in 2006/07, an increase of 4. The percentage of audit assignments completed in relation to the revised plan for 2007/2008 is 98% compared to 75% in 2006/2007 and 55% in 2005/06.

5.15 The number of audit days spent on audit assignments in 2007/2008 was 517.47 (including 72.07 audit days charged to contingency) compared to 444.52 in 2006/07, an increase of 16% year on year.

5.16 Internal Audit has previously set itself a target of achieving 90% of the audit plan in recent years. This target was originally set by the Audit Commission in its Auditor Scored Judgement in 2003. However, this target was not included in the Use of Resources Assessment, which replaced the Auditor Scored Judgement during 2005/06, as it was widely felt to be unachievable. Nevertheless, The Internal Audit Section aspires to set itself very challenging targets, and therefore retained the 90% target in 2006/07 and 2007/08. In respect of audit assignments completed the target was met (98%) however, with regard to audit days spent on audit assignments, the target outturn position was marginally below target. (89.22%)

- ◆ Despite the robust arrangements in place for managing sickness absence the Service experienced 178.73 days lost to sickness absence during the year. This was primarily as a result of two separate members of staff suffering long term absences in the last six months of the year. These two issues have now been resolved. Obviously such high levels of sickness impacts on the audit plan as the amount of time that can be spent on audit assignments is proportionately reduced.
- ◆ Audit planning and supervision, shows a variance of 23 days over the anticipated level. The additional days spent here were in respect of reviewing and re-aligning the audit plan in response to the increased levels of sickness within the service and redesigning the audit progress plan spreadsheet for automatic update by linking the spreadsheet back to staff timesheets
- ◆ General Administration as previously reported was already anticipated to be over allocated as other staff have picked up the audit assistants' workload as well as their own over the year. The level of general administration however is still far too high and will be monitored closely in 2008/09.
- ◆ Internal Audit, as part of the 2007/2008 audit plan, set more achievable targets with a much more flexible approach, and as a result was able to react quickly to calls for urgent reviews as well as maintaining their day to day work.

5.17 On the basis of our work carried out in 2007/2008 as Head of Internal Audit I am satisfied that:-

- ◆ Outputs from the work undertaken on the business critical systems agreed with the audit commission at the start of 2007/2008 can generally be relied upon for opinion purposes. This coupled with the comprehensive assurance statements received from all Directors and 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.
- ◆ However there are some areas of weakness and these have been outlined in the Council's Annual Governance Statement together with the actions that the Council are taking to correct these.
- ◆ Policies and procedures in place to prevent and detect fraud and corruption have been reviewed in 2007/08 and updated and communicated to all staff as well as being placed on the Council's web site and the intranet. 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 have been strengthened with the publication of a new Corporate Governance Framework during the year. A new Local Code of Corporate Governance has been developed and approved by Council. In addition a new Model Code for Members has been produced. The six governance principals identified in the Corporate Governance Framework have now been incorporated into what was previously known as “the Statement of Internal Control” which is now replaced by an “Annual Governance Statement” with effect from 2007/08. Internal audit has reviewed the Council’s governance arrangements and have found them to be satisfactory.
- ◆ The Council have made significant progress with its risk management processes during 2007/08 In response to local government review the Council has produced a Transition Plan which incorporates and updates all of the Council’s strategies and plans. These include the Corporate Performance Plan, the Capital Strategy, Asset Management Plan, Procurement Strategy, Sustainable Development Policy, Climate Change Strategy and Organisational Development/Welfare Plan, as well as other corporate strategies and plans, all service business plans and draws on the Council’s strategic and operational risk registers. As such, it represents the Council’s contribution to the City of Durham Council’s Community Strategy and the Strategic Vision for County Durham and has at its heart sound needs assessment and a good understanding of local communities shared by all partners within the City and its surrounding villages.
- ◆ The Council’s Confidential Reporting Policy (Whistle Blowers Charter) has been reviewed and updated and approved and communicated to all staff. The policy has also been placed on the Council’s website and on the intranet.
- ◆ Written procedure notes for all business critical systems have been reviewed during the year and services will work hard in keeping these relevant and up to date.

Key achievements

- 5.20 Despite the considerable challenges faced, in 2007/2008, 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 now embedded a more risk based continuous auditing approach in line with best practice (the only authority in County Durham to do this)
- 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 Services to now include internal audit at an early stage in new system development.
- 5.24 Results from post audit questionnaires, and a independent review of the section in line with the Accounts and Audit Regulations 2006 show that the section has improved its performance over the last twelve months.
- 5.25 The number of audits carried out and completed in 2007/2008 has increased, despite the challenges of coping with long term sickness absence in the year.
- 5.26 During 2007/2008 Internal audit has continued to examine its processes and methodology to increase efficiency and ensure value for money.
- 5.27 Internal audit continues to assist other services by carrying out value for money (VFM) assignments on request. In 2007/08 three VFM studies were completed (Rent Collectors, Kiosks, and Transfer Station) which assisted Directors/Heads of Service in the decision making process.

- 5.28 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.
- 5.29 The Head of Internal Audit has reviewed and updated the Audit Manual in response to changing methodology and practice.
- 5.30 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
- 5.31 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) Benchmarking against other internal audit sections within the district.
- 5.32 The following local performance indicators for the period 1st April 2007 to the 31st March 2008 are shown below:-

2006/2007		Indicator	2007/2008	
number	%		number	%
47	75	Number of audits undertaken and completed	51	98
200	-	Number of recommendations made	169	-
200	100	Number of recommendations agreed	163	96
0	-	Number of recommendations not agreed	3	-
0	-	Number of recommendations partly agreed	3	-
-	43.5	% of Draft reports issued within 10 working days of closure meeting	-	53
-	72.75	% of Final reports and recommendation action plans issued within 5 working days of the post audit meeting	-	64

2006/2007			2007/2008	
number	%	Indicator	number	%
-	26	% of recommendation action plans signed off and returned within 5 working days of issue	-	68
1/04/06 155		Number of recommendations implemented since start of financial year (Some relate to audits carried out in previous years)	1/04/07 361	-
n/a	n/a	Number of Recommendations withdrawn	17	-
-	92	% of Post audit questionnaires completed and returned	-	90
-	74	% Post audit meetings held within 10 working days of the issue of the draft report	-	69

5.33 At the end of 2007/08, there was a total of 112 recommendations still outstanding, 65 of which have still to be followed up, and 47 of which have already been followed up and new recommendation dates negotiated.

5.34 Recommendations outstanding which have yet to be followed up are attached at Appendix B. Of the 57 still outstanding there are:-

- ◆ 39 relating to recommendations due to be implemented between 1/04/08 and 30/06/08 which will be followed up in July (Q2)
- ◆ 18 relating to recommendations due to be implemented between 1/07/08 and 30/09/08 which will be followed up in October (Q3)

5.35 Recommendations which have already been followed up are attached at Appendix C. Of the 47 still outstanding there are:-

- ◆ 43 outstanding recommendations relating to recommendations due to be implemented by the 30th June 2008 will be followed up in July (Q2)
- ◆ 2 outstanding recommendations relating to recommendations due to be implemented between the 1st July 2008 and the 30th September 2008 will be followed up in October (Q3)
- ◆ 2 outstanding recommendations relating to recommendations due to be implemented between 1st October 2008 and 31st December 2008 will be followed up in January 2009. (Q4)

5.35 Five of the recommendations that have already been followed up were issued under the new recommendation protocol where implementation dates are linked purely to risk. Directors/Heads of Service have been notified that these recommendations have not been implemented within the required timeframe in the Follow up report and we are awaiting a response.

- 5.36 There have been no more recommendations escalated to Directors/Heads of Service since the last meeting.
- 5.37 There have been no more recommendations withdrawn than those previously reported to Committee.
- 5.38 There are also no further recommendations not agreed or partly agreed than those previously reported

6.0 **AUDITS COMPLETED IN 2007/08 (excluding items already reported)**

6.1 **Audits assessed as EXCELLENT and awarded an audit opinion score of 1**

Internal audit reviewed the following systems where 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.

Crematorium

There were no recommendations made. All key controls are in place and the Central Durham Crematorium Superintendent and his staff should be commended for the professional quality of their work.

Accountancy Budgets

Only one minor recommendation was made in respect of evidence requirements. The work of the Accountancy section has improved over the last year and they should be commended for the accuracy and quality of data and working papers used for budget setting as well as the improved methodology used for budget monitoring throughout the year.

Treasury Management

No recommendations were made. The Treasury Management service maintains its audit opinion score of 1 (excellent) which it was awarded last year. Staff continue to operate at a very high standard and should be commended for their efforts.

6.2 **Audits assessed as GOOD and awarded an opinion score of 2**

Internal audit reviewed the following systems where 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 considered to be working effectively and provides substantial assurance that risks material to the achievement of the control objectives are adequately managed.

Housing Benefits

There were no recommendations made. The Housing benefits service continues to set very high standards however, failure to review user access during the year and minor issues with procedure notes prevented an award of an opinion score of 1 (excellent.)

Planned Maintenance

Recommendations were made in respect of evidence requirements and a suggested amendment to sign off sheets. However, despite these minor issues the service continues to improve year on year.

Responsive Repairs

There were no recommendations made and the service continues to improve. Only minor issues in respect of targets and delays in inspections due to the implementation of SX3 prevented an award of an opinion score of 1 (excellent)

Gas Maintenance

There were no recommendations made and the service continues to improve. Whilst the work of the service is to a very high standard other parts of the control system continue to reduce the audit opinion score.

Waste Transfer Station

Only one recommendation was made regarding accuracy of data. However, in addition to the system review work carried out a value for money study was carried out on behalf of the Head of Environment and Leisure Services to ascertain the viability of continuing to run the transfer station or to make alternative arrangements.

6.3 Audits assessed as SATISFACTORY and awarded an audit opinion score of 3

Internal Audit reviewed the following systems where 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.

Gala catering and bars

Recommendations included improvements to the audit trail, the need for regular bankings, accuracy of data, improvement in security and proper approval for price rises.

Customer Services

Main recommendations included message response times, Local performance indicators, performance management and user access.

Stage School

Recommendations were made in respect of Child protection training, and VAT issues. The Stage School has worked hard over the last year to improve internal control and has seen their audit opinion score improve from a audit opinion score of 4 (needs improvement) to a 3 (Satisfactory)

Cash Collection

Recommendations included evidence requirements, division of duties, and cash security.

6.4 Audits assessed as NEEDS IMPROVEMENT and awarded an opinion score of 4

Internal Audit reviewed the following systems where 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.

Debtors

Main recommendations were in respect of certifying powers, supply of back up documentation to legal when pursuing recovery action, processing of credit notes, evidence requirements and performance management.

Housing Rents

Recommendations were made regarding system reconciliations, delays in recovery action, issues with the Bailiff, the monitoring of rental income via the pay-point system and business continuity arrangements.

Data Retention and Disposal

Recommendations included the nomination of a responsible officer for each Service, adherence to the policy including retention periods, application of data protection legislation, and fire and security risks at Grape Lane

Sickness

Despite an improved PI score for sickness in 2007/08 system weaknesses are still inherent. Recommendations were made in respect of reconciliation between systems, communication of recommendations to all staff, return of Employee sickness declaration forms, consistency of practice, and back to work/sickness review forms.

Creditors

Main recommendations were in respect of division of duties, evidence requirements, accuracy of records, cancelled cheques and terms and conditions.

6.5 Audits assessed as UNSATISFACTORY and awarded an audit opinion score of 5

There were no audit assignments carried out over the period which attracted a score of (unsatisfactory) 5

6.6 5 further reviews were carried out which did not require an audit opinion

Benefits Accuracy Q4

Internal Audit undertakes a quarterly review of the accuracy of benefit claims.

These aim to meet three objectives:

- ◆ Enable client management to monitor performance against BVPI 79a.
- ◆ Enable client management to monitor performance against the standards of evidence requirements of the Verification Framework.

The quarterly audit identified that 125 of the 125 (100%) determinations were compliant with the Verification Framework Requirements.

System reconciliation

The audit highlighted areas of best practice and areas of weakness where reconciliation work was either poorly executed or had never been considered. As expected all main financial systems had good reconciliation processes in place which were carried out regularly and on a timely basis both to system and to FMS with adequate supporting documentation

Recommendations were made on a service by service basis to improve and/or put systems in place to reconcile on a regular basis. Only one recommendation out of six has been implemented in line with new recommendation protocol. Reasons for non implementation are included in Appendix B. Heads of Service have been notified as part of the Follow up report

Supporting people

The way in which the Supporting people grant is calculated and distributed is quite complicated. The Principal Auditor has reconciled this for 2007/08 and is now in the process of reconciling up to date in 2008/09. In addition a reconciliation methodology to support the service responsible for reconciling the system on a day to day basis has been developed.

Fraud and Corruption

Internal audit review the Council's arrangements for Fraud and Corruption annually. In 2007/08 a new Fraud Strategy and Fraud Response Plan has been

developed and approved. This was widely publicised and placed on the Council's website and intranet. Internal audit will continue to remind staff of their responsibilities under the Strategy in line with best practice, on an annual basis.

Governance Arrangements

With the introduction of a new Corporate Governance Framework in 2007/08 the existing governance arrangements checklist has been reviewed. All aspects of governance has been examined and arrangements have been mostly found to be in place. Significant governance issues have been incorporated into the Council's Annual Governance Statement which will be approved with the Council's Statement of Accounts by Council.

7. RECOMMENDATIONS

That the action taken in respect of the 2007/2008 Outturn Audit Plan be approved.

AUDIT PLAN 2007/2008 DETAILED ANNUAL

PERIOD 1/04/2007 TO 31/03/2008

Audit number	Audit item	Target Days	Outturn Actual	Variance	Complete	Reported to committee
08/01	Performance Indicators	15.00	18.70	3.70	Y	Oct-07
08/02	Accountancy - Financial management system	10.00	10.37	0.37	Y	Oct-07
08/03	Capital Finance (incl leasing and prudential code)	10.00	4.20	-5.80	Y	Oct-07
08/04	Cash reconciliations (incl arrears, refunds and write offs)	5.00	7.57	2.57	Y	Oct-07
08/05	Burial service	10.00	10.63	0.63	Y	Jul-07
08/06	IT - Application controls	10.00	2.70	-7.30	C/hwd 08/09	n/a
08/07	NNDR liability incl valuation, collection, voids, refunds, discounts and write offs	10.00	11.87	1.87	Y	Oct-07
08/08	Swimming Baths	15.00	16.83	1.83	Y	Oct-07
08/09	Housing benefits - quarterly check Q1	7.00	6.13	-0.87	Y	Jul-07
08/10	Grants register incl guidance, procedures and min standards for WP	15.00	2.10	-12.90	withdrawn	n/a
08/46	VFM - rent collectors (Quarter 1)	7.00	9.60	2.60	Y	Jan-08
08/49	Statement of Internal Control (Quarter 1)	5.00	0.00	-5.00	Y	Jun-07
08/50	Durham Sport (Quarter 1)	10.00	1.60	-8.40	Y	Jul-07
08/51	Service charges (Quarter 1)	10.00	5.27	-4.73	Y	Jan-08
Total Quarter 1		139.00	107.57	-31.43		

Key system

Key system

Key system

Audit number	Audit item	Target Days	YTD Actual	YTD Variance	Complete	Reported to committee
08/11	Council Tax liability incl valuation, collection, voids, discounts, exemptions, refunds and w/offs	15.00	15.73	0.73	Y	Jan-08
08/12	Accountancy Final accounts	7.00	8.27	1.27	Y	Oct-07
08/13	Asset register	10.00	8.50	-1.50	Y	Jan-08
08/14	Housing benefits - Performance standards	10.00	8.00	-2.00	Y	Oct-07
08/15	Creditors	10.00	12.13	2.13	Y	Jun-08
08/16	Payroll incl overtime, maternity/paternity, mileage and disturbance	15.00	15.80	0.80	Y	Jan-08
08/17	Cash collection incl receipting, electronic payments, kiosks, suspense	10.00	11.73	1.73	Y	Jun-08
08/18	Gas maintenance	10.00	6.67	-3.33	Y	Jun-08
08/19	Risk Management	7.00	9.33	2.33	Y	Jan-08
08/20	Responsive repairs	10.00	7.90	-2.10	Y	Jun-08
08/21	Housing benefits - quarterly check Q2	7.00	7.07	0.07	Y	Oct-07
08/22	IT - data protection	15.00	3.03	-11.97	withdrawn	n/a
08/45	VFM - Kiosks (Quarter 2)	7.00	7.00	0.00	Y	Jan-08
Total Quarter 2		133.00	121.16	-11.84		

Key system

Key system

Key system

Key system

Key system

Key system

Audit number	Audit item	Target Days	YTD Actual	YTD Variance	Complete	Reported to committee
08/23	Sickness	10.00	18.10	8.10	Y	Jun-08
08/24	Stage School	10.00	11.83	1.83	Y	Jun-08
08/25	System reconciliation	10.00	7.83	-2.17	Y	Jun-08
08/26	Housing benefits - quarterly check Q3	7.00	6.93	-0.07	Y	Jan-08
08/27	Planned Maintenance	10.00	10.20	0.20	Y	Jun-08
08/28	IT internal penetration testing (outsourced)	10.00	0.47	-9.53	Y	Jan-08
08/29a	Sports Centres Deerness	15.00	15.00	0.00	Y	Jan-08
08/29b	Sports Centres Coxhoe	15.00	15.57	0.57	Y	Jan-08
08/30	IT - internet controls	10.00	0.00	-10.00	withdrawn	n/a
08/31	Treasury management	5.00	7.73	2.73	Y	Jun-08
08/32	Customer services	20.00	20.40	0.40	Y	Jun-08
08/33	Data retention and disposal	10.00	9.17	-0.83	Y	Jun-08
Total Quarter 3		132.00	123.23	-8.77		

Key system

Key system

Audit number	Audit item	Target Days	YTD Actual	YTD Variance	Complete	Reported to committee
08/34	Transfer station	10.00	10.67	0.67	Y	Jun-08
08/35	Accountancy Budgets	10.00	1.03	-8.97	Y	Jun-08
08/36	Housing rents liability incl rent calculation, collection, voids refunds and write offs	10.00	14.50	4.50	Y	Jun-08
08/37	Housing benefits - quarterly check Q4	7.00	7.00	0.00	Y	Jun-08
08/38	Housing benefits - Council tax, rent allowances etc.	20.00	19.63	-0.37	Y	Jun-08
08/39	Crematorium	7.00	10.47	3.47	Y	Jun-08
08/40	IT - business continuity/disaster recovery	10.00	0.33	-9.67	withdrawn	n/a
08/41	Housing benefits fraud investigations	10.00	0.00	-10.00	withdrawn	n/a
08/42	Debtors incl a/c raising, recovery, write off and system	10.00	11.10	1.10	Y	Jun-08
08/43	IT - change controls	10.00	0.00	-10.00	withdrawn	n/a
08/44	Gala - catering and bars	10.00	10.23	0.23	Y	Jun-08
08/47	Governance arrangements (Quarter 4)	5.00	4.07	-0.93	Y	Jun-08
08/48	Fraud and Corruption (Quarter 4)	5.00	4.40	-0.60	Y	Jun-08
Total Quarter 4		124.00	93.43	-30.57		

Key system

Key system

Key system

Reserve List

Target Days	YTD Actual	YTD Variance
52.00	0.00	-52.00
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	0.00
52.00	0.00	-52.00

Target Days	YTD Actual	YTD Variance
580.00	445.39	-134.61
TOTAL AUDIT PLAN		

Brought forward

Audit number	Audit item	Target Days	YTD Actual	YTD Variance	Complete	Reported to committee
07/39 bf	Sickness	0.00	6.40	6.40	Y	Jul-07
07/22 bf	Treasury Management	0.00	0.60	0.60	Y	Jul-07
07/38 bf	Housing Maintenance	0.00	3.30	3.30	Y	Jul-07
07/48 bf	Debtors	0.00	7.37	7.37	Y	Jul-07
07/33 bf	Cash Collection	0.00	2.60	2.60	Y	Jul-07
07/60 bf	Crematorium	0.00	0.53	0.53	Y	Jul-07
07/37 bf	Housing Benefits Fraud investigations	0.00	0.17	0.17	Y	Jul-07
07/50 bf	Housing Benefits	0.00	2.80	2.80	Y	Jul-07
07/32 bf	Accountancy Estimates	0.00	1.47	1.47	Y	Jul-07
07/05 bf	Customer Services	0.00	0.73	0.73	Y	Jul-07
Total brought forward		0.00	25.97	25.97		

n/a	Follow ups	Target Days	YTD Actual	YTD Variance
		40.00	39.03	-0.97

Non Productive Time

Activity Time	Target Days	YTD Actual	YTD Variance	
	Bank Holidays	60.00	60.00	0.00
	Annual leave	197.00	174.00	-23.00
	Sickness	54.00	232.73	178.73
	Special leave	6.00	6.27	0.27
	Day release	68.00	45.00	-23.00
	Other training	60.00	30.73	-29.27
	Study leave / exams	12.00	8.00	-4.00
	Hospital/Dental appointments	3.00	0.77	-2.23
	TOTAL	460.00	557.50	97.50

Management and Administration (non chargeable)

Audit and Administration (non chargeable)			Target Days	YTD Actual	YTD Variance
Audit planning, management and supervision of the section.	50.00	73.00	23.00		
Review of policy documentation	10.00	14.50	4.50		
Audit manual review in line with new CIPFA model	15.00	26.37	11.37		
Advice and discussion with District Audit	6.00	1.27	-4.73		
Audit sub group etc	4.00	3.00	-1.00		
Maintenance of data base	5.00	4.87	-0.13		
Idea Sub Group	4.00	3.53	-0.47		
OMT	4.00	1.23	-2.77		
Review of Internal Audit	2.00	1.97	-0.03		
Key lines of enquiry	10.00	2.33	-7.67		
New legislation	2.00	0.93	-1.07		
Business Planning	5.00	0.00	-5.00		
Document imaging/Back Scanning	10.00	9.10	-0.90		
Options appraisal	20.00	0.07	-19.93		
Risk management	10.00	8.33	-1.67		
Internal Audit review meetings	10.00	11.13	1.13		
General Administration	60.00	133.87	73.87		
PDR's	3.50	3.83	0.33		
Business Continuity	5.00	0.33	-4.67		
Emergency planning	5.00	0.53	-4.47		
Section Heads meeting	3.50	5.07	1.57		
TOTAL	244.00	305.26	61.26		

Management and Administration (chargeable)

Internal Audit and Administration (chargeable)			
	Target Days	YTD Actual	YTD Variance
Tender openings	3.00	1.07	-1.93
Financial appraisals	5.00	0.93	-4.07
Project implementation - Purchasing, Housing and Rents	10.00	0.27	-9.73
Treasury management cover	4.00	1.03	-2.97
Stores - stocktaking	10.00	0.00	-10.00
Advice to Departments	20.00	14.87	-5.13
Audit awareness training	2.00	0.13	-1.87
Review of regulations and procedures	3.00	0.00	-3.00
Implementatuon of recommendations involving additional work by Internal Audit	10.00	3.47	-6.53
Statement of internal control	10.00	10.63	0.63
Misc working groups	10.00	6.20	-3.80
TOTAL	87.00	38.60	-48.40

Ad Hoc work (Contingency)

		Target Days	YTD Actual	YTD Variance	Complete	Reported to committee
08 - cont	RTB support work	0.00	1.60	1.60		
08 - cont	Building Control investigation	0.00	7.87	7.87	Y	Oct-07
08 - cont	BVPI 12 - Sickness - investigation of methodology and recalculation	0.00	19.47	19.47	Y	verbal
08 - cont	Flexitime	0.00	0.23	0.23		
08 - cont	Local Area agreement	0.00	0.53	0.53		
08 - cont	New system SX3, Housing, Rents, Maintenance	0.00	0.47	0.47		
08 - cont	Cash receipting procedures	0.00	4.77	4.77		
08 - cont	NWA water rate charges	0.00	5.60	5.60	Y	Oct-07
08 - cont	Cash collection errors	0.00	0.33	0.33		
08 - cont	Baths appeal	0.00	1.33	1.33		
08 - cont	Out of date cheque	0.00	0.17	0.17		
08 - cont	Restructure	0.00	1.13	1.13		
08 - cont	Furniture pack	0.00	19.03	19.03	Y	Oct-07
08 - cont	Tenants contents insurance	0.00	2.33	2.33	Y	Oct-07
08 - cont	Local Government review	0.00	5.47	5.47		
08 - cont	Scam invoice	0.00	0.47	0.47		
08 - cont	Procurement - one off payments	0.00	0.47	0.47		
08 - cont	Mayors appeal	0.00	1.33	1.33		
08 - cont	ICT updating laptops	0.00	1.27	1.27		
08 - cont	Travellers site - electricity meter	0.00	0.20	0.20		
08 - cont	Supporting people	0.00	17.77	17.77	Y	Jun-08
08 - cont	Request and installation of new certificate - Experian	0.00	0.33	0.33		
08 - cont	New Code of Corporate Governance	0.00	3.27	3.27		
08 - cont	Witness statement	0.00	2.20	2.20		
08 - cont	National Fraud Initiative	0.00	0.60	0.60		
08 - cont	Kiosks 17 Claypath	0.00	0.27	0.27		
08 - cont	Break in 17 Claypath	0.00	0.00	0.00		
08 - cont	A Turner	0.00	2.60	2.60		
08 - cont	Data for County Council	0.00	0.80	0.80		
08 - cont	SX3 Stock control interface	0.00	0.30	0.30		
08 - cont	Office move	0.00	10.80	10.80		
08 - cont	Data matching - Audit Commission	0.00	0.20	0.20		
08 - cont	Implementation of recommendations	0.00	0.67	0.67		
08 - cont	Bacstel-Ip	0.00	0.73	0.73		
08 - cont	Deecal demo	0.00	0.27	0.27		
08 - cont	Shared services	0.00	0.33	0.33		
08 - cont	Recrds office retention of historical records	0.00	0.47	0.47		
08 - cont	Accountancy secondment	0.00	5.00	5.00		
08 - cont	Staff Turnover contingency	25.00	0.00	-25.00		
08 - cont	Special investigations contingency	130.00	2.53	-127.47		
Total		155.00	123.21	-31.79		

	Target Days	YTD Actual	YTD Variance
Totals	1566.00	1534.96	-31.04

Audit Ref	Audit Name	Department	Rec No	Planned implementation date	Recommendation	Explanation
07/39	Sickness	Corporate Services	R1	31-Jul-08	Employees are to be reminded that they must contact DHS on the first (and second) day of absence before 10am.	Re-stated as part of 07/08 review to be followed up in Q3 08/09
07/39	Sickness	Corporate Services	R10	31-Jul-08	Managers are to scan all return to work interviews and sickness counselling interviews and forwarded them via email to Payment Services so that they can be electronically stored on Anite.	Re-stated as part of 07/08 review to be followed up in Q3 08/09
07/39	Sickness	Corporate Services	R11	31-Jul-08	Managers are to be informed that following the transmission, and confirmation of receipt from Payroll, of sickness counselling/return to work forms, the original should be disposed of securely	Re-stated as part of 07/08 review to be followed up in Q3 08/09
07/39	Sickness	Corporate Services	R12	31-Jul-08	The Human Resources Manager may wish to consider issuing further guidance regarding the use of disciplinary action with regards to sickness	Re-stated as part of 07/08 review to be followed up in Q3 08/09
07/39	Sickness	Corporate Services	R13	31-Jul-08	All managers and supervisors need to be made aware that when completing the return to work interview or sickness counselling forms "Yes, No or N/A" answers are no longer appropriate. The form should be used to record exactly what is discussed with the emp	Re-stated as part of 07/08 review to be followed up in Q3 08/09
07/39	Sickness	Corporate Services	R14	31-Jul-08	The Employee Sickness Declaration Form should be amended so that the information recorded on the ESDF by the employee is compatible with that used on Resourcelink and DHS. Amendment could be made to for example, absence details, shifts lost, etc to attempt	Re-stated as part of 07/08 review to be followed up in Q3 08/09
07/39	Sickness	Corporate Services	R16	31-Jul-08	Where appropriate, for employees who work shift/rota, DHS should be informed of the actual shift pattern of the employee to ensure the accuracy of the data.	Re-stated as part of 07/08 review to be followed up in Q3 08/09
07/39	Sickness	Corporate Services	R18	31-Jul-08	Any discrepancies noted on weekly absence returns provided by DHS to managers/supervisors should be investigated, amended where applicable and returned to DHS by the manager. If discrepancies recur or data is not amended by DHS, the manager should inform	Re-stated as part of 07/08 review to be followed up in Q3 08/09
07/39	Sickness	Corporate Services	R2	31-Jul-08	Employees are to be reminded that they must contact DHS to inform them that they are returning to work.	Re-stated as part of 07/08 review to be followed up in Q3 08/09
07/39	Sickness	Corporate Services	R4	31-Jul-08	Managers are to be reminded that where they have received an email regarding an employee's return to work they must respond in order to ensure the accuracy of the information on DHS.	Re-stated as part of 07/08 review to be followed up in Q3 08/09
07/39	Sickness	Corporate Services	R5	31-Jul-08	To ensure that employees follow the sickness absence procedures they should be reminded that it is necessary for them to submit the ESDF forms by the 4th calendar day, as per the Guidelines.	Re-stated as part of 07/08 review to be followed up in Q3 08/09
08/05	Burial Service	Environment and Leisure Services	R8	01-Apr-08	The use of current ICT resources or already available burial software packages should be investigated with the view to replacing the current manual system.	
08/08	Swimming Baths	Environment and Leisure Services	R16	31-Aug-08	A central file be set up which holds all of the procedure notes for the Swimming Baths.	
08/15	Creditors	Corporate Services	R2	30-Jun-08	Payments staff be reminded that when scanning invoices care is to be taken to ensure that the invoices are accurately matched to the correct order.	
08/23	Sickness	Corporate Services	R1	30-Jul-08	Regular checks should be carried out by managers to ensure that sickness days match across documentation, Resourcelink, and DHS. All significant discrepancies should be followed-up.	

Audit Ref	Audit Name	Department	Rec No	Planned implementation date	Recommendation	Explanation
08/23	Sickness	Corporate Services	R2	30-Jul-08	Heads of Service should ensure that recommendations regarding sickness are filtered down through team briefings to officers who are required to implement them.	
08/23	Sickness	Corporate Services	R3	30-Jul-08	Procedures should be in place to ensure that all Employee Sickness Declaration Forms are promptly scanned into the employees personal file once they have been processed.	
08/23	Sickness	Corporate Services	R4	30-Jul-08	All staff should be reminded of the requirement to return a completed ESDF and ensure that it is in by the 4th day of absence.	
08/23	Sickness	Corporate Services	R5	30-Jul-08	Managers to ensure that employees complete and return an ESDF for each instance of sick.	
08/23	Sickness	Corporate Services	R6	30-Jul-08	Managers to be reminded that evidence of communication, such as interviews, with employees on long-term sick should be forwarded to Payment Services in order that it can be appropriately scanned and filed into the correct personal folder within Anile. The	
08/24	Stage School	Cultural Services	R1	31-Jul-08	The GTSS are to liaise with Human Resources to establish when Training with regards to the Child Protection Policy is to be carried out.	
08/27	Planned Maintenance	Property Services	R1	07-Apr-08	Properly checked and signed delivery notes should be gathered and forwarded to payment services for scanning.	
08/27	Planned Maintenance	Property Services	R2	07-Apr-08	The sign-off sheets should be amended to enable the recording of the date for each tenants signature.	
08/32	Customer Services	Corporate Services	R1	31-May-08	Voicemail returns should be continually monitored to ensure good performance and achievement of targets.	
08/32	Customer Services	Corporate Services	R3	31-May-08	A record of each PVR checked should be maintained on the CRM system.	
08/32	Customer Services	Corporate Services	R4	31-May-08	The problems with creating CRM reports should be addressed in order that accurate LPI's can be produced.	
08/32	Customer Services	Corporate Services	R5	31-May-08	CRM reports should be used to monitor waiting times and manage resources to ensure targets are met.	
08/32	Customer Services	Corporate Services	R6	31-May-08	Services be reminded of the requirement to close cases once they have been dealt with. Extra training should be given if required.	
08/32	Customer Services	Corporate Services	R7	31-May-08	Customer survey results be compiled on a regular basis to ensure that management information is timely and problem areas can be promptly identified.	
08/32	Customer Services	Corporate Services	R8	31-May-08	Other methods of recording customer surveys should be investigated which would allow the accurate and automatic production of management information, such as utilisation of the CRM, or an Access database.	
08/32	Customer Services	Corporate Services	R9	31-May-08	That a suitable system be set up to ensure that all completed forms have been recorded.	
08/34	Transfer Station	Environment and Leisure Services	R1	30-Jun-08	The process for compiling information for the Environmental Agency Waste Return be reviewed in order to provide accurate and reliable information.	
08/36	Housing Rents	Corporate Services	R1	30-Apr-08	The TCI database be checked to confirm whether or not the 11 accounts highlighted are still active.	
08/36	Housing Rents	Corporate Services	R2	30-Apr-08	Following confirmation of the accuracy regarding the TCI database and SX3 a full reconciliation be carried out as part of the year end procedures.	
08/36	Housing Rents	Financial Services	R3	30-Apr-08	The Team Leader (PB) is to monitor the Current Arrears to ensure that reasonable action is taken by the appointed Recovery Officer for that area.	

Audit Ref	Audit Name	Department	Rec No	Planned implementation date	Recommendation	Explanation
08/36	Housing Rents	Financial Services	R4	30-Apr-08	The recovery action stages be carried out in accordance with the Authorities Debt Management Strategy	
08/36	Housing Rents	Financial Services	R5	30-Jun-08	The issues regarding the Bailiff be resolved to ensure that reasonable action to taken to pursue the debts	
					The income received via pay point be monitored and a regular analytical review be carried out to compare the income collected via the rent collectors and via pay point to assess its effectiveness with regards to collections.	
08/36	Housing Rents	Financial Services	R6	30-Apr-08	The Rents Supervisor is to ensure that all of his Rents duties, responsibilities and procedures are recorded and passed over to the Revenues Supervisor and Team Leader	
08/36	Housing Rents	Financial Services	R7	30-Apr-08	Appropriate officers from each service be formally given the ability to authorise account requests. This should be recorded on the certifying officers list along with their other authorisation abilities.	
08/42	Debtors	Financial Services	R1	30-Sep-08	Services should ensure that the necessary documentation is promptly passed to legal when the debt is referred. If insufficient documentation is available Revenues should be informed in order that alternative recovery action can be initiated.	
08/42	Debtors	Financial Services	R2	30-Jun-08	Each credit note to be authorised prior to processing with appropriate evidence and system notes to support this. A credit note proforma should be utilised where appropriate.	
08/42	Debtors	Financial Services	R3	30-Jun-08	All reports monitored including accounts at bailiff, recovery suppressions, and arrangements, should be initialised by the checking officer.	
08/42	Debtors	Financial Services	R4	30-Sep-08	As previously recommended, targets should be set for the raising of invoices by services. Such as 10 working days from provision of service to invoice.	
08/42	Debtors	Financial Services	R5	30-Sep-08	Compliance with targets for raising invoices should be monitored on a regular basis by each service.	
08/42	Debtors	Financial Services	R6	30-Sep-08	The browser reporting facility be utilised to check invoices prior to despatch. This should be carried out by an independent officer if resources allow.	
08/42	Debtors	Financial Services	R7	30-Jun-08	Daily cashing up sheets must be signed by the person cashing up the takings for the day to ensure a full audit trail exists	
08/44	Gala Bars and Catering	Cultural Services	R1	30-Apr-08	Regular bankings must be undertaken, to ensure that Insured Safe limits are adhered to.	
08/44	Gala Bars and Catering	Cultural Services	R2	30-Apr-08	For all functions undertaken, appropriate documentation must be fully and accurately completed, stating the quantity of items and price per item	
08/44	Gala Bars and Catering	Cultural Services	R3	30-Apr-08	Care should be taken to ensure that only prices per the price list are charged and invoiced	
08/44	Gala Bars and Catering	Cultural Services	R4	30-Apr-08	The reconciliation be brought up to date promptly to reflect the results of the investigation, and care taken to ensure that in the future, background information is completed for each new item, to prevent such errors occurring again.	
08/44	Gala Bars and Catering	Cultural Services	R5	30-Jun-08	All price increases for the Gala Bar must be sent to the Director of Financial Services for approval, prior to being introduced.	
08/44	Gala Bars and Catering	Cultural Services	R6	30-Jun-08		
08/44	Gala Bars and Catering	Cultural Services	R7	30-Jun-08	Investigations be undertaken into the feasibility of moving the CCTV camera's to a more prominent place.	

08/44	Gala Bars and Catering	Cultural Services	R8	30-Jun-08	All new and changed risks identified in the Control Risk Self Assessment (CRSA) be transferred onto the Risk Register for regular monitoring.	
Audit Ref	Audit Name	Department	Rec No	Planned implementation date	Recommendation	Explanation
08/Cont 1	NWA - Payment and collection of charges	Financial Services	R4	01-Apr-08	All properties with incorrect rateable values should be amended to ensure that future charges are correctly recharged	
08/Cont 1	NWA - Payment and collection of charges	Financial Services	R5	01-Apr-08	Where NWA charge based on a fixed charge basis, the Council recharge should be based on the same basis	
08/Cont 1	NWA - Payment and collection of charges	Financial Services	R6	01-Apr-08	Investigations should be carried out to establish if the recharged amount can be rounded up to the nearest penny when calculated to ensure that the whole amount paid is recovered.	

Audit Ref	Department	Rec No	Planned implementation date	Revised Implementation Date	Recommendation	Explanation	Notes
05/27	Environment and Leisure Services	R13	01-Mar-06	30-Jun-08	A control record should be created for each site showing the allotment site, plot number occupied, date of tenancy agreement and the date on which a Sundry Debtors Account was raised That a suitable system be devised to ensure that all inspections required under the terms of the contract are carried out and appropriately recorded	Audit of Public Open Space currently being carried out	21/11/07 "This is a time consuming and painstaking exercise. Information is now being collated - 31/03/08"
05/33	Community Services	R15	01-Nov-04	30-Jun-08		Reviewed as part of 08/Cont 2 Furniture Packs	HB Officers were to be utilised. No longer have any. Workload and staffing issues.
05/34	Corporate Services	R3	01-Mar-05	30-Jun-08	A suitable method for reconciling the rent account with the RSA database be established. Due to the low take up of the scheme it is suggested that the reconciliation be carried out at least quarterly. Once a budget has been allocated, the requirements for the Lexel Accreditation regarding written procedure notes be adhered to and the procedures developed.	Staffing restrictions - new staff in post July 2005. Implementation date was revised to 30/06/2007	Part of HMS. Followed up Oct 07 - not implemented. New system just been installed - when confident in its use will write a report to reconcile
06/27	Strategic Services	R3	30-Apr-07	01-Apr-09		A budget has not yet been allocated for the year and uncertainty remains with LGR	
06/32	Environment and Leisure Services	R13	01-Dec-06	30-Apr-08	Consideration be given to producing a single procedures manual covering all leisure centres	Manager of the centre left - new manager will take over task in June	Manual to be completed by April 2008 - Quest Accreditation
06/33	Community Services	R1	01-Jun-07	30-Jun-08	City Care to liaise with the Revenues Control Team, and the Rents Section, in order that a solution be found to enable the reconciliation of income to the rent control account. A review of the system users should take place to ensure compliance with the software licence, with the use of shared log-ins where appropriate.	New system being installed which will reconcile information	To be reconciled by audit.
06/48	Environment and Leisure Services	R17	30-Apr-07	01-Apr-08	Vehicle records on Tranman should be updated with details of tracker devices that have been fitted.	New system to be implemented in April 2008	
06/48	Environment and Leisure Services	R22	30-Apr-07	01-Apr-08	A Terms of Reference document should be written for the Transport User Group.	New system to be implemented in April 2008	
06/48	Environment and Leisure Services	R27	31-Aug-06	01-Apr-08	Produce a policy document that contains all aspects of fleet management, including warranty work, and get it underwritten by the Transport User Group and the OMT.	New system to be implemented in April 2008	
06/48	Environment and Leisure Services	R4	30-Apr-07	01-Apr-08	The current policy should be revised to enable officers to work within the requirements of the service.	Single Status	
07/23	Corporate Services	R1	30-Apr-07	30-Sep-08	The times of the Flexi Time Policy be reviewed to reflect the part time and full time employees working hours.	Single Status	
07/23	Corporate Services	R7	30-Apr-07	30-Sep-08	Care should be taken to ensure that data relating to the current financial year are included in the BVPI calculation.	This cannot be checked until the end of the financial year	See 09/01 Performance Indicators
08/01	Environment and Leisure Services	R4	01-Jun-07	30-Jun-08	Procedure notes for working practices outside the operation of Sx3 should be reviewed and steps taken to ensure all areas are sufficiently documented.	To be codified	
08/07	Financial Services	R1	28-Feb-08	30-Jun-08		A register has been devised but has yet to be used	
08/08	Environment and Leisure Services	R12	30-Nov-07	31-May-08	Unemployment pass holders should be asked to sign a register when using the facilities. The Area Manager carry out regular reconciliations of the cash and credit card transactions be comparing the amounts on the Analysis Sheet, Compulsory Cash Totals, and Z01 Cash Breakdown sheets, to ensure that the amounts are accurate.	A cash reconciliation sheet has been developed and is to be completed on a monthly basis	
08/08	Environment and Leisure Services	R14	31-Aug-07	31-May-08			

Audit Ref	Department	Rec No	Planned implementation date	Revised Implementation Date	Recommendation	Explanation	Notes
08/08	Environment and Leisure Services	R6	30-Nov-07	31-May-08	The method of payment/charge (i.e. cash, card, cheque, Debtor account) for each hire of the facilities should be recorded on the appropriate hire agreement form. The booking form to be amended to include this.	Forms are to be redesigned with the pening of the new pool, these will include a section for the method of payment	
08/08	Environment and Leisure Services	R7	30-Nov-07	31-May-08	All payments in respect of parties and bookings must be recorded on the application form, including the initial of the receiving officer and the date received. The payment must also be recorded in the takings book. The booking form to be amended to include	Staff are to be remind that the forms for parties should b date stamped and initialed when the income is received	
08/12	Financial Services	R1	31-Mar-08	30-Jun-08	Working papers should be hyperlinked to the relevant section of the statement of accounts (if time permits). Failing this, as a minimum, shortcuts should be utilised within the designated struture to the actual location of the working papers.	See file	
08/12	Financial Services	R2	31-Mar-08	30-Jun-08	All working papers should be recorded on a summary of working papers, which should include the minimum requirement for working papers and a record of the subsequent review.	See file	
08/16	Corporate Services	R1	19-Oct-07	30-Jun-08	The cognos reporting tool be utilised to produce reports to enable the periodic review of amendments. All such reviews should be evidenced.	RA is to liase with ICT to develop these reports	Reports taking an excessive time.
08/19	Strategic Services	R1	07-Nov-07	30-Nov-08	Following approval and implementation of the revised policy/strategy document, the overall score for the Risk Management Strategies enabler be amended to 21 out of 21, equating to 100%	Will be revised annually with the RM checklist	
08/19	Strategic Services	R4	07-Nov-07	30-Nov-08	Actions included in the Action plan (attached to the Risk Management Self Assessment Checklist) be reviewed on a quarterly basis. in line with the target dates and the self assessment checklist updated annually to reflect the latest position.	Will be revised annually with the RM checklist	
08/25	Cultural Services	R1	28-Feb-08	30-Jun-08	The TIC Manager and staff develop processes to ensure that the reconciliations are adequately carried out and review procedures of these reconciliations are in place.	Officer requires improved access to Agresso	
08/25	Environment and Leisure Services	R2	28-Feb-08	30-Jun-08	Reconciliation procedures should be incorporated into the system for the collection of fees and charges for non-domestic waste and should be carried out on a periodic basis.	No explanation given	
08/25	Environment and Leisure Services	R4	28-Feb-08	30-Jun-08	The Technical Support Officer is to develop procedures to ensure that the income received from invoices raised is posted to the correct account, and that this information is reconciled on a regular basis.	Guidance requested	
08/25	Planning Services	R5	28-Feb-08	30-Jun-08	When the Development Control Manager carries out the reconciliations of the Agresso Account for Planning to the CAPS information, supporting evidence is to be maintained to demonstrate that this is being carried out on a regular basis, and in a timely man	Guidance requested	

Audit Ref	Department	Rec No	Planned implementation date	Revised Implementation Date	Recommendation	Explanation	Notes
08/25	Property Services	R6	28-Feb-08	30-Jun-08	The Admin Technical Support Officer is to run an enquiry on Debtors using the "PROPSERG" Debt Type in order to reconcile the values of the accounts raised, the outstanding balances and the payments made.	No explanation given	
08/29	Environment and Leisure Services	R1	30-Sep-07	30-Jun-08	Audit to liaise with Coxhoe Leisure Centre to improve the current reconciliation process for Leisure Finance Transactions. This then should be reiterated across the whole of Leisure Services.	PJ in touch with Leisure Finance	Recent Audit review. Ongoing.
08/29	Environment and Leisure Services	R3	29-Feb-08	30-Jun-08	A regular reconciliation is undertaken by Leisure Services staff to ensure that all necessary centre members are reconciled to Leisure Finance payments (refer to outcome of Coxhoe Leisure Centre report)	Recent Audit Review. Ongoing	
08/32	Corporate Services	R2	29-Feb-08	30-Jun-08	Steps should be put in place to ensure the prompt response to email and web enquiries. For enquiries passed to another service the case on CRM should be left open and followed up by Customer Services on a daily basis.	Ongoing - see KR	
08/51	Financial Services	R1	31-Dec-07	01-Apr-08	Accountancy is to obtain copies of all leases for which service charges are made	Leases have not been obtained for service charges	
08/Cont 2	Community Services	R5	01-Dec-07	30-Jun-08	Arrangements should be made to ensure that upon receipt of the keys to a property, or where applicable, notice to vacate a property, NFS are contacted immediately to arrange for the collection of the furniture pack	Errors found in reconciliation	Errors to be reported following furniture pack reconciliation
08/Cont 2	Community Services	R6	01-Dec-07	30-Jun-08	For future terminations, NFS should be instructed to collect the furniture within 5 working days and where this is not agreed the end of tenancy should be agreed for the Monday following 5 working days from the date of notification.	Errors found in reconciliation	Errors to be reported following furniture pack reconciliation
08/Cont 2	Financial Services	R7	01-Dec-07	30-Jun-08	Investigations should be made to determine if the contract may be amended whereby charges would cease the Monday following notification of the requirement to collect the furniture.	To be followed up next quarter / upon return of AK	
08/Cont 2	Financial Services	R8	01-Nov-07	30-Jun-08	Investigations should be made to determine the feasibility of recovering those costs not previously charged and repayment of those costs overcharged	To be followed up next quarter / upon return of AK	
08/Cont 2	Community Services	R9	01-Oct-07	30-Jun-08	Housing Officers should take care to ensure that charges are correctly calculated and subsequently applied within the Rent Account.	Errors found in reconciliation	
08/Cont 3	Planning Services	R1	01-Sep-07	31-May-08	The Head of Planning Services should adequately consult all relevant officers on budgets which they are expected to control (1.4).	PID is in the process of being developed and DT is to speak to OMT regarding subscriptions	
08/Cont 3	Planning Services	R12	01-Aug-07	31-May-08	The number of inspections carried out by each surveyor should be adequately monitored on a weekly basis over the coming months to ensure a balanced and full workload	There are issues regarding the system which are being looked at by ICT	
08/Cont 3	Planning Services	R13	01-Aug-07	31-May-08	Initial discussions should be held with JBC to determine the possibility of variations to the contract pending the outcome of analysis to be carried out over the next 3 months	Dependent on other recommendation and possible implication of LGR	

Audit Ref	Department	Rec No	Planned implementation date	Revised Implementation Date	Recommendation	Explanation	Notes
08/Cont 3	Planning Services	R 14	01-Oct-07	31-May-08	Consideration should be given to options available for the long-term provision of the service	New staffing structure has recently been agreed which will assist in the options appraisal	
08/Cont 3	Planning Services	R 2	01-Aug-07	31-May-08	Consideration should be given to the introduction of timesheets to adequately determine the level of activity undertaken as chargeable/non-chargeable (1.9 – 1.12).	Reliant on AK	
08/Cont 3	Planning Services	R 3	01-Aug-07	31-May-08	Adequate checking procedures need to be introduced to ensure that all charges made by the partner are accurate and reconciled (2.4)	Reliant on AK	
08/Cont 3	Planning Services	R 4	01-Aug-07	31-May-08	Revised validation and income receipting procedures will be devised by Internal Audit and implemented ASAP (3.1 & 3.2)	Reliant on AK	
08/Cont 3	Planning Services	R 7	01-Aug-07	31-May-08	Reconciliation procedures are to be introduced on a monthly basis to ensure that all income is appropriately coded (3.3 & 3.4 & 3.10).	Reliant on AK	
08/Cont 3	Planning Services	R 8	01-Aug-07	31-May-08	Input control totals should be utilised to ensure that all Debtor accounts are raised as expected (3.7)	Building Control Manager is to liaise with Rev Sup regarding carrying out control totals	
08/Cont 4	Corporate Services	R 1	01-Oct-07	30-Jun-08	Data from the database should be reconciled to the charges made via tenants rent accounts prior to payment of the premiums on a monthly basis.	The reconciliation relies on other large jobs being completed prior to it being carried out. These will be done by the end of the financial year	G West Updating access database

Annual Audit and Inspection Plan

Durham City Council

Audit 2008/09

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

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

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

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

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

Status of our reports

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

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

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

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www.audit-commission.gov.uk

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Introduction

- 1** This plan sets out the audit and inspection work that we propose to undertake for the 2008/09 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of moving towards Comprehensive Area Assessment (CAA). It reflects:
 - audit and inspection work specified by the Audit Commission for 2008/09;
 - current national risks relevant to your local circumstances; and
 - your local risks and improvement priorities.
- 2** As a result of local government reorganisation (LGR) in Durham, 2008/09 will be the final year of operation of City of Durham Council. Our work has been tailored to reflect this position.
- 3** For 2008/09, the role of Relationship Manager has been replaced by the post of Comprehensive Area Assessment Lead (CAAL). The CAAL will provide the focal point for the Commission's work in your local area, lead the CAA process, and ensure that the combined inspection programme across all inspectorates is tailored to the level and nature of risk for the area and its constituent public bodies. The Commission has become the statutory gatekeeper of all inspection activity involving local authorities.
- 4** As we have not yet completed our audit for 2007/08, the audit planning process for 2008/09, 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

- 5 We comply with the statutory requirements governing our audit and inspection work, in particular:
 - the Audit Commission Act 1998;
 - the Local Government Act 1999; and
 - the Code of Audit Practice.
- 6 The Code of Audit Practice (the Code) defines auditors' responsibilities in relation to:
 - the financial statements (including the annual governance statement); and
 - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 7 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies (from April 2008) 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.
- 8 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.

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Fees

- 9 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2008/09. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 10 The total indicative fee for the audit and inspection work included in this audit and inspection plan for 2008/09 is for £138,400, which compares to the actual/planned fee of £142,584 for 2007/08.
- 11 A summary of this is shown in the table below. The fee is determined by audit risks identified, mandated work and basic assumptions. A detailed breakdown of the audit and inspection fee is included in Appendix 2.

Table 1 Audit fee

Audit area	Planned fee 2008/09	Planned/Actual fee 2007/08	Page
Total audit fee	£129,137	£123,409	10
Total inspection fee	£9,263	£19,175	14
Certification of claims and returns	£14,000	£15,000	21

- 12 The Audit Commission scale fee for City of Durham Council is £125,337. The fee proposed for 2008/09 is +3 per cent compared to the scale fee and is within the normal level of variation specified by the Commission.
- 13 In setting the fee, we have assumed that:
 - the level of risk in relation to the opinion and VFM conclusion will increase as the demise of the Council draws even closer. This view is based on experiences of other local government reorganisations. Common problems have included increased risks of breakdown in internal controls, poor value for money and fraud and corruption;
 - internal audit undertakes appropriate work on all systems that they identify as high risk; and
 - good quality working papers and records will be provided to support the financial statements.

Further details of the assumptions are outlined in Appendix 2.

- 14 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.
- 15 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). This fee then becomes payable.
- 16 In order to deliver our responsibilities to give a value for money conclusion, we will need to monitor how the transition to a new unitary authority impacts upon the Council's governance arrangements in 2008/09. In particular we will need to:
- review the Council's actions taken to mitigate the risks arising from LGR;
 - monitor the delivery of the Council's identified actions; and
 - consider any additional work which may need to be undertaken to deliver our responsibilities.
- 17 We have included a modest initial sum in the audit and inspection plan of each district council in County Durham to carry out additional work associated with LGR. This is an initial estimate of the additional fee required, but this will likely need to be revised during the year as the nature and extent of our audit work in this area becomes apparent. In this event we will follow the process outlined in paragraph 21 below, for agreeing changes in our fees.

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

- 18 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

- 19 As set out in paragraph 4, we expect that the initial risk assessment may change as the year progresses. Where this is the case, we will discuss this in the first instance with the Director of Financial Services. Supplements to the plan will be issued to record any revisions to the risk and the impact on the fee.

Auditor's report on the financial statements

- 20** We are required to issue an audit report giving our:
- opinion on whether the financial statements present fairly the financial position of the Council as at 31 March 2009; and
 - conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial statements

- 21** We have not yet undertaken a detailed risk assessment for our audit of the financial statements as many of the specific risks which may become apparent after we have completed our 2007/08 audit. A separate opinion plan for the audit of the financial statements will be issued in December 2008.
- 22** At this stage we are aware of the following risks that are likely to impact on our audit of the financial statements:
- potential changes to the experience and knowledge of staff available to produce the financial statements following transfer of responsibility to the new unitary authority; and
 - possible weaknesses in internal controls resulting from secondments and leavers as a result of LGR.
- 23** The adoption of International Financial Reporting Standards (IFRS) is not required by local government bodies in 2008/09. However, there may be a requirement to prepare whole of government accounts (WGA) consolidation packs on the basis of IFRS. Further guidance is awaited.

VFM conclusion

- 24 In reaching our conclusion, we will review evidence that is relevant to the Council’s performance management and financial management arrangements.
- 25 The key risks highlighted from the planning are summarised in the table below with details of planned work to mitigate the risks. Full details of the risk assessment are outlined in Appendix 3.

Table 2 Key risks identified

Key risks identified	Planned work to address the risk
Risks arise from the potential loss of staff leading to potential breakdown in internal control and good governance arrangements.	Review the actions taken by the council to mitigate the risks and report as necessary.
Service continuity will be at risk during the transition. Performance management and risk management must be especially robust during the change period.	Review and comment on Risk and Performance management arrangements.

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Use of Resources

- 26 This audit plan covers the last year of the current regime for Use of Resources assessment. The work required to arrive at the Use of Resources assessment is fully aligned to that required to arrive the auditor's Value for Money conclusion.
- 27 Appendix 1 outlines the criteria and scoring.
- 28 The initial risk assessment for use of resources work is shown in Appendix 3. This will be updated through our continuous planning process as the year progresses.

Mandated work

29 As part of the audit, the mandated work programme comprises:

- data quality for 2008/09; and
- whole of government accounts.

Appendix 1 highlights the work to be undertaken.

CPA and inspection

- 30** From April 2009, the Audit Commission, jointly with the other public service inspectorates, will be implementing Comprehensive Area Assessment (CAA). Therefore, 2008/09 is the last year in which corporate assessments and programme service inspections will be undertaken as part of the CPA framework.
- 31** 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. There will be no corporate assessments in County Durham during the year. Our inspection activity in 2008/09 will be governed by three factors: our role in driving continuous improvement through inspections; the requirement on us to carry out Direction of Travel assessments at all councils; and the added value that our independent assessment can bring to the new council.
- 32** Our inspection programme is designed to support the development of the new unitary council by assessing key areas of activity which are important in improving the quality of life in the county. On the basis of our previous work and of analysis of key issues, we have identified 'sustainable communities' as an important area for our inspection activity.

Table 3 Summary of inspection activity

Inspection activity	Reason/impact
CAAL role (incorporating previous Relationship Manager functions).	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.	<p>An annual assessment, carried out by the CAAL, of how well the Council is securing continuous improvement. The DoT assessment will be reported in the Annual Audit and Inspection Letter.</p> <p>In all the County Durham district councils, we will consider how best to carry out our DoT in 2008/09. We may combine work to assess individual councils with some assessment of Direction of Travel issues across the county. We will also discuss reporting arrangements for the Direction of Travel before the transition to the new unitary council. We will discuss these points with you nearer the time of the assessments, which are planned for September 2008 to February 2009.</p>

Inspection activity	Reason/impact
Sustainable communities inspection.	A county-wide inspection of all eight existing councils together of 'sustainable communities'. We will work with you to scope this inspection, which could include strategic planning, strategic housing, environmental, transport and economic development issues.

Advice and assistance

- 33** We have power to provide 'advice and assistance' (A&A) to another public body where this is requested.

If you wish the Commission to provide additional services under these powers, please contact Janet Gauld, our regional lead on A&A (j-gauld@audit-commission.gov.uk) or Jim Dafter.

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The audit and inspection team

- 34 The key members of the audit and inspection team for the 2008/09 audit are shown in the table below.

Table 4 Audit and inspection team

Name	Contact details	Responsibilities
Marion Talbot CAAL	m-talbot@audit-commission.gov.uk 0844 7981652	The 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.
Steve Nicklin District Auditor	s-nicklin@audit-commission.gov.uk 0844 7981621	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 Council.
Jim Dafter Audit Manager	j-dafter@audit-commission.gov.uk 0844 798 1622	Manages and co-ordinates the different elements of the audit work. Key point of contact for the Director of Finance.

Quality of service

- 35 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 District Auditor in the first instance. Alternatively you may wish to contact the Yorkshire and Humberside and North East Head of Operations, Dave Allsop.
- 36 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

- 37 Reports will be discussed and agreed with the appropriate officers before being issued to the Council.

Table 5 **Planned outputs**

Planned output	Indicative date
Annual governance report	30 September 2009
Auditor's report giving an opinion on the financial statements	30 September 2009
Final accounts memorandum	31 October 2009
Use of resources report	31 October 2009
Sustainable Communities Inspection report	Inspection activity autumn 2008; report published late 2008
Annual Audit and Inspection Letter	TBC
Annual governance report	30 September 2009

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Appendix 1 – Elements of our work

Financial statements

- 1 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).
- 2 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 2008, the financial position of the Council as at 31 March 2009 and its income and expenditure for the year.
- 3 We are also required to review whether the Annual Governance Statement has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the Annual Governance Statement is misleading or inconsistent with our knowledge of the Council.

Value for money conclusion

- 4 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 the auditor to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at our conclusion.
- 5 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.
- 6 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

Use of resources assessment

- 7 The Use of Resources themes and KLOEs are outlined below.
- 8 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

- 9 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.
- 10 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 the CPA.

Data quality

- 11 Our data quality work is based on a three-stage approach covering:
 - Stage 1 – management arrangements;
 - Stage 2 – analytical review; and
 - Stage 3 – risk-based data quality spot checks of a sample of 2007/08 performance indicators.
- 12 Work will be focused on the 2007/08 overall arrangements for data quality, particularly on the responsibility of the Council to manage the quality of its data including data from partners where relevant.

- 13 The Audit Commission has specified that two housing benefit service indicators will be subject to audit as part of the stage 3 spot checks. To avoid duplication and maximise efficiencies between different elements of the audit, this approach has been planned so that we can draw on this work in conducting the later certification of the Council's Housing Benefit & Council tax claim. As a result, our planned fee for auditing the Council's grant claims has reduced.
- 14 Our fee estimate reflects an assessment of risk in relation to the Council's data quality arrangements and 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.

Whole of government accounts

- 15 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.

National Fraud Initiative

- 16 From 2008/09 work relating to the National Fraud Initiative will be carried out directly by the Commission under its new data matching powers under the Serious Crime Act 2007. The Commission will be consulting audited bodies on the work programme and fee scales for the National Fraud Initiative later this year.

Certification of grant claims and returns

- 17 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.
- 18 As highlighted above our planned fee for auditing the Council's grant claims has reduced. We will utilise information and assurances gained from our audit of two housing benefit performance indicators, carried out as part of our data quality assessment, in order to reduce the time required to audit the Council's Housing Benefit & Council tax claim.

Appendix 2 – Basis for fee

- 1 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 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 coordinated with the work of other regulators, and that our work helps you to improve.
- 2 The 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.

Assumptions

- 3 In setting the fee, we have assumed that:
 - the level of risk in relation to the audit of the financial statements will increase as the accounts will be prepared by the successor body and the arrangements for doing so are yet to be determined;
 - you will inform us of significant developments impacting on our audit;
 - internal audit continue to meet the appropriate professional standards;
 - good quality working papers and records will be provided to support the financial statements by agreed deadlines;
 - 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.
- 4 Where these assumptions are not met, I 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.

- 5 Changes to the plan will be agreed with you. These may be required if:
 - new residual audit risks emerge;
 - additional work is required by the Audit Commission or other regulators; or
 - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.
- 6 Below is a detailed breakdown of the audit and inspection fee for 2008/09.
- 7 The fee (plus VAT) will be charged in 12 equal instalments from April 2008 to March 2009.

Table 6 Detailed audit and inspection fee

Audit area	Planned fee 2008/09	Planned/Actual fee 2007/08	Page
Audit			
Financial statements	£89,825	£84,310	10
Use of Resources	£21,408	£25,350	12
Data Quality	£15,178	£10,525	20
Whole of government accounts and NFI	£2,726	£3,225	21
Total audit fee	£129,137	£123,410	
Inspection			
Relationship management	£2,986	£2,950	14
Direction of Travel	£2,986	£2,950	14
Service inspection	£3,291	£13,275	15
Total inspection fee	£9,263	£19,175	
Total audit and inspection fee	£138,400	£142,585	
Certification of claims and returns	£14,000	£15,000	21

Appendix 3 – Initial risk assessment – Use of resources and VFM conclusion

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities
<p>LGR involves numerous use of resources risks including:</p> <ul style="list-style-type: none"> Increased staff turnover and key vacancies leading to a breakdown in internal control; misappropriation of assets, especially ICT; a rush to spend money resulting in poor value for money; and transitional arrangements for governance and business continuity. 	<p>There is a good transition agreement designed to effectively manage this high risk with an independent project manager appointed and transitional governance arrangements in place.</p>	Yes	<p>We will track LGR preparations, through meetings, review of minutes and enquiry into issues arising at other reorganised authorities.</p>	<p>All aspects of the VFM Conclusion to be given by 30 September 2009 and 2008 UOR assessment (especially themes 4.2, 4.3, 5.1 and 5.2)</p>

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities
Potential changes to the experience and knowledge of staff available to produce the financial statements following transfer of responsibilities to the new unitary council; and possible weaknesses in internal controls resulting from secondments and leavers as a result of LGR.	<i>Management are reviewing resource pressures at each of their fortnightly meetings.</i>	Yes	Additional time may be required to cover additional risks arising during the audit of the financial statements.	Audit opinion on the Council's statement of accounts
The adoption of International Financial Reporting Standards (IFRS) is not required by local government bodies in 2008/09. However, there may be a requirement to prepare whole of government accounts (WGA) consolidation packs on the basis of IFRS.	Staff are following developments and requirements. Although adoption of IFRS will be after 31 March 2009, the 2008/09 WGA return may require restating to be IFRS compliant.	Yes	Understanding of the requirements and review of closedown arrangements for WGA.	Opinion on the Whole of Government submission pack

Appendix 4 – Independence and objectivity

- 1 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.
- 2 We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised below.
- 3 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 the 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).
- 4 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 5 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.
- 6 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 Council on matters which are considered to be of sufficient importance.
- 7 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.
- 8 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 and Inspection 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.
- The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Appendix 5 – Working together

Meetings

- 1 The audit and inspection team will maintain knowledge of your issues to inform audit and inspection through regular liaison with key officers.
- 2 Our proposal for meetings is as follows.

Table 7 Proposed meetings with officers

Council officers	Audit Commission staff	Timing	Purpose
Chief Executive	District Auditor (DA) Audit Manager (AM)	Quarterly: April, August, November, February	General update plus: <ul style="list-style-type: none"> • April - Audit and Inspection Plan • June - accounts progress and VFM
Director of Financial Services	AM and TL	Quarterly	Update on audit and opinion issues
Chief Internal Auditor	AM and TL	Quarterly	Update on audit progress and issues
Audit Committee	DA and AM, with TL as appropriate	Quarterly	Formal reporting of: <ul style="list-style-type: none"> • Audit and Inspection Plan; • Annual governance report; • Annual Audit and Inspection Letter; and • other issues as appropriate.

Sustainability

- 3 The Audit Commission is committed to promoting sustainability in our working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:
- reducing paper flow by encouraging you to submit documentation and working papers electronically;
 - use of video and telephone conferencing for meetings as appropriate; and
 - reducing travel.

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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.I) of the description indicated in Column 3 below.

Column 1	Column 2	Column 3
Special Investigations	Director of Financial Services	Information relating to any individual (Para 1) Information which is likely to reveal the identify of an individual (Para.2) Information relating to the financial or business affairs of any particular person (including the Authority holding the information) (Para.3) 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.</p>
