



Audit Committee

Monday, 26 June 2006
6.00 p.m.

Conference Room 1,
Council Offices,
Spennymoor

AGENDA and REPORTS

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AGENDA

- 1. APOLOGIES**
- 2. ROLE AND FUNCTION OF THE AUDIT COMMITTEE**
Report of Head of Financial Services. (Pages 1 - 4)
- 3. AUDIT COMMISSION - USE OF RESOURCES AUDIT SCORE FEEDBACK**
To consider the attached report. (Pages 5 - 14)
- 4. INTERNAL AUDIT SERVICE ANNUAL REPORT 2005/06**
Report of Head of Financial Services. (Pages 15 - 26)
- 5. STATEMENT OF THE SYSTEM OF INTERNAL CONTROL AND CORPORATE GOVERNANCE**
Report of Head of Financial Services. (Pages 27 - 32)
- 6. STATEMENT OF ACCOUNTS (FOR YEAR ENDED 31ST MARCH 2006)**
Report of Head of Financial Services. (Pages 33 - 46)
- 7. PROPOSED TRAINING ARRANGEMENTS FOR MEMBERS OF THE COMMITTEE**
Report of Head of Financial Services. (Pages 47 - 50)
- 8. APPOINTMENT OF INDEPENDENT MEMBER**
To consider any applications received.
- 9. PROPOSED WORK PLAN FOR 2006/07 MUNICIPAL YEAR**
Report of Head of Financial Services. (Pages 51 - 54)
- 10. ANY OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT**
Members are respectfully requested to give the Chief Executive, notice of items they would wish to raise under the heading not later than 12 noon on the day preceding the meeting, in order that consultation may take place with the Chairman who will determine whether the item will be accepted.

B. Allen
Chief Executive

Council Offices
SPENNYMOOR
16TH June 2006

Councillor M.A. Dalton (Chairman)
Councillor B.M. Ord (Vice Chairman)

Councillors Mrs. K. Conroy, Mrs. A.M. Fleming, Mrs. C. Potts and J.M. Smith.

ACCESS TO INFORMATION

Any person wishing to exercise the right of inspection etc. in relation to this agenda and associated papers should contact Mrs. Gillian Garrigan, Spennymoor 816166 Ext 4240 ggarrigan@sedgefield.gov.uk

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26TH JUNE 2006

REPORT OF HEAD OF FINANCIAL SERVICES

Portfolio: STRATEGIC LEADERSHIP

ROLE AND FUNCTION OF THE AUDIT COMMITTEE

1. SUMMARY

- 1.1 The Council, at its meeting on the 19th May 2006, received a joint report from the Chief Executive and Director of Resources that recommended the establishment of an Audit Committee (Minute C.6/06 refers).
- 1.2 The recommendations also suggested that the Council's Constitution should be amended to incorporate a number of changes, together with any other consequential changes identified by the Monitoring Officer.
- 1.3 The role and function of the Committee was included as part of Appendix 1 to that report.
- 1.4 The purpose of this report is therefore to appraise Members of the role and function of the Audit Committee, as approved by the Council.

2. RECOMMENDATION

- 2.1 That the Committee notes its role and function, as approved by the Council.

3. DETAIL

- 3.1 The Council has been encouraged by the Audit Commission and the Chartered Institute of Public Finance and Accountancy (CIPFA) to establish an Audit Committee, and a detailed report was presented to Cabinet on 13th April 2006 (Minute CAB.179/05 refers), Standards Committee on 5th May 2006 (Minute ST.33/05 refers) and Council on 19th May 2006 (Minute C.6/06 refers), subsequently agreed to the establishment of the Committee.
- 3.2 The reports indicated the role and function of the Committee as shown at Appendix 1 to his report.

4. RESOURCE IMPLICATIONS

- 4.1 There are no resource implications arising from this report.

5. CONSULTATIONS

- 5.1 Advice and guidance was available from the Commission and CIPFA as to the Role and Functions of an Audit Committee.

6. OTHER MATERIAL CONSIDERATIONS

6.1 **Links to Corporate Objectives/Values**

The purpose of identifying the Role and Function of this Committee is to ensure that the Council is:-

- *Being responsible with and accountable for public finances.*
- *Being open, accessible, equitable, fair and responsive.*

6.2 **Risk Management**

No material considerations have been identified.

6.3 **Health and Safety**

No additional implications have been identified.

6.4 **Equality and Diversity**

No material considerations have been identified.

6.5 **Legal and Constitutional**

There are no legal or constitutional issues arising from this report.

7. OVERVIEW AND SCRUTINY IMPLICATIONS

There are no Overview and Scrutiny implications.

Contact Officer: Harold Moses (Head of Financial Services)
Telephone: 01388-816166 Ext. 4385
E-Mail: hmoses@sedgefield.gov.uk

Ward(s): Not Ward Specific

Background Papers: The Implications of the Establishment of An Audit Committee:
- Report to Cabinet 13/4/06
- Report to Standards Committee 5/5/06
Establishment of an Audit Committee:
- Report to Council 19/5/06

Examination by Statutory Officers:

	Yes	Not Applicable
1. The report has been examined by the Council's Head of the Paid Service or his representative.	<input type="checkbox"/>	<input type="checkbox"/>
2. The content has been examined by the Council's S.151 Officer or his representative.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. The content has been examined by the Council's Monitoring Officer or his representative.	<input type="checkbox"/>	<input type="checkbox"/>
4. Management Team has approved the report.	<input type="checkbox"/>	<input type="checkbox"/>

ROLE AND FUNCTION OF THE AUDIT COMMITTEE

The Audit Committee will have the following role and function:-

- (a) To consider the effectiveness of the Council's Risk Management arrangements, the control environmental and associated anti-fraud and anti-corruption arrangements. To report at least annually to Cabinet on the effectiveness of the Risk Management arrangements.
- (b) To seek assurances that action is being taken on risk related issues, identified by Auditors and Inspectors.
- (c) To be satisfied that the Council's Assurance Statements, including the Statement of Internal Control, properly reflect the risk environment and any actions required to improve it.
- (d) To approve the Council's Internal Audit Strategy Plan, Annual Audit Plan and monitor performance against all associated plans
- (e) To review summary Internal Audit reports and the main issues arising and seek assurance that action has been taken where necessary.
- (f) To receive an Annual Report from the Head of Internal Audit.
- (g) To ensure that there are effective relationships between External and Internal Audit, Inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
- (h) To review financial statements, including the Council's Statement of Accounts, External Auditor's and other inspection agencies opinions and reports to Members and monitor management action in response to the issues raised by External Audit and other inspection agencies.
- (i) For the Chair and Vice-Chair to meet privately and separately at least once a year with the External Auditor and Head of Internal Audit.
- (j) To have the right to call any officers of the Council as required.
- (k) To consider performance and best value issues to the extent that they relate to the audit and control environment and risk management issues of the Council.

Note: For the purpose of these roles and functions 'Audit' relates to corporate issues, complaints, inquiries, financial probity and such other matters as may be decided by the Council.

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Use of Resources Audit Score Feedback

Sedgefield Borough Council

Audit 2004-2005

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 to the Council

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

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

Copies of this report

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

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Introduction

- 1 The annual use of resources (UoR) assessment evaluates how well councils manage and use their financial resources. It is a more stringent test than the auditor scored judgements that formed part of the comprehensive performance assessment (CPA) framework up until 2004. The scope of the assessment has also been widened.
- 2 The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services, covering five themes.
- 3 Previously, 'adequate arrangements' were sufficient to score 3, but under the new approach meeting 'adequate performance' will score 2. Scoring is based on the following scale.

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

- 4 The overall score for use of resources will be reported to the Council by the Audit Commission on 13 March 2006. The scores for Sedgefield Borough Council for the five themes are outlined overleaf.

Summary scores for each theme

Key Lines of Enquiry (KLoE)	Score
Financial Reporting	3
1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	3
1.2 The Council promotes external accountability.	4
Financial Management	3
2.1 The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities.	3
2.2 The Council manages performance against budgets.	3
2.3 The Council manages its asset base.	3
Financial Standing	4
3.1 The Council manages its spending within the available resources.	4
Internal Control	3
4.1 The Council manages its significant business risks.	3
4.2 The Council has arrangements in place to maintain a sound system of internal control.	3
4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	3
Value for Money	2
5.1 The Council currently achieves good value for money.	2
5.2 The Council manages and improves value for money.	3

Theme summaries

- 5 The key findings and conclusions for each of the five themes are summarised below.

Financial reporting

FINANCIAL REPORTING	
Overall score 3	
Key findings and conclusions	
<p>The approach to producing the accounts is very good – the Council has achieved early closure within the requirements of WGA for the past three years with good supporting manual and electronic working papers which are cross-referenced to the accounts. Members are becoming more engaged in the process of approving the accounts.</p> <p>The Council has produced summary accounts which have been consulted on with community focus groups. The annual report includes a clear summary of financial information and is understandable and available in different formats.</p>	
Improvements needed to move to next level	
KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	Working papers - not yet exemplary.
KLOE 1.2 The Council promotes external accountability.	None.

Financial management

FINANCIAL MANAGEMENT Overall score 3	
Key findings and conclusions	
<p>The approach to financial management is strong. The Council has a history of spending within budget. There is an up to date corporate plan which clearly links to the comprehensive medium-term financial plan and other plans and strategies.</p>	
Improvements needed to move to next level	
<p>KLOE 2.1 The Council's medium-term financial strategy (MTFS), budgets and capital programme are soundly based and designed to deliver its strategic priorities.</p>	<p>The MTFS needs to be developed to include joint plans agreed with partners and other stakeholders, and modelling of balance sheets and cashflow over three years.</p>
<p>KLOE 2.2 The Council manages performance against budgets.</p>	<p>Planned introduction of traffic light system. Evidence that balance sheet areas are monitored on an ongoing basis.</p>
<p>KLOE 2.3 The Council manages its asset base.</p>	<p>Develop a clear understanding of partners/stakeholders, which should be fully involved in the communication process of asset management performance assessment. Develop an approach for co-ordinating asset management information and its integration with relevant organisational financial information.</p>

Financial standing

<p>FINANCIAL STANDING Overall score 4</p>	
<p>Key findings and conclusions</p>	
<p>Financial standing is good, there is a comprehensive medium-term financial plan linked to the corporate plan and to the annual budget. Target levels of reserves and balances are set and monitored by members. Income collection targets are set and monitored by members. The Council monitors the opportunity costs of maintaining its levels of reserves and balances and compared these to the benefits it accrues.</p>	
<p>Improvements needed to move to next level</p>	
<p>KLOE 3.1 The Council manages its spending within the available resources.</p>	<p>None.</p>

Internal control

INTERNAL CONTROL Overall score 3	
Key findings and conclusions	
<p>The Council has a history of strong internal control. Internal audit comply with the CIPFA code of conduct for Internal Audit. Arrangements to support the SIC and give assurance to members are in place. Monitoring officer is proactive in his role in relation to standards of conduct.</p>	
Improvements needed to move to next level	
KLOE 4.1 The Council manages its significant business risks.	Further develop risk management arrangements to demonstrate that risk management is embedded in corporate business processes.
KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.	Continue to review the need for a separate audit committee. Embed assurance framework in the Council's business processes.
KLOE 4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	Continue to develop the counter fraud culture.

Value for money

VALUE FOR MONEY Overall score 2	
Key findings and conclusions	
<p>Overall, council spending per head of population lies in the top quartile when compared to both districts nationally and with the CIPFA nearest neighbour comparator group. However, this is largely a reflection of the higher level of activity undertaken in line with stated priorities.</p> <p>The Council has strong monitoring and review arrangements and has increased investment in its performance management and corporate capacity. There are a range of examples of the Council addressing poor performance and delivering sustained improved outcomes for its communities.</p> <p>The Council has detailed action plans to monitor and deliver its Gershon efficiencies, but these are not sufficiently SMART. Cost information is available but baseline information is still being developed. Procurement arrangements are being strengthened and have produced savings on major ICT projects.</p>	
Improvements needed to move to next level	
KLOE 5.1 The Council currently achieves good value for money.	Continue to strengthen comparative cost and performance information.
KLOE 5.2 The Council manages and improves value for money.	Review the Gershon action plans to ensure they include SMART targets.

26TH JUNE 2006

**REPORT OF HEAD OF
FINANCIAL SERVICES**

Portfolio: STRATEGIC LEADERSHIP

Subject: INTERNAL AUDIT SERVICE – ANNUAL REPORT 2005/06

1. SUMMARY

- 1.1 The Accounts and Audit Regulations 2003 require the Council to maintain an adequate and effective system of internal audit of accounting records and control systems, as well as imposing the requirement to publish a Statement of Internal Control (SIC) on an annual basis. The SIC must be supported by comprehensive evidence that the features of a good internal control system are working. Additionally, the statutory duty placed upon the Director of Resources, as the responsible financial officer by virtue of Section 151 of the Local Government Act 1972, for ensuring the proper administration of financial affairs is, in part, achieved by satisfactory performance of the Internal Audit Service.
- 1.2 Overview and Scrutiny Committee 1 approved a report on the planned work of the Internal Audit Service for 2005/06 on the 29th March 2005. The half-yearly report on work undertaken was considered on 22nd November 2005. The Committee also received reports on 30th August 2005 on Risk Management and Statement of Internal Control, these being two areas of particular relevance to the Council's control environment. This report covers the work carried out during the year ended 31st March 2006, with relevant comments on specific areas of activity.

2. RECOMMENDATION

- 2.1 It is recommended that the report on Internal Audit Service work in 2005/06 be noted.

3. AUDIT ACTIVITY 1ST APRIL 2005 TO 31ST MARCH 2006

- 3.1 The Audit Plan approved on 29th March 2005 scheduled a total of 812 days for the year.
- 3.2 The final outturn report at Appendix 1 shows a total of 904 days were actually achieved in the year.

3.3 *Systems and Regularity Audit*

All the major areas of work included in the Plan were either examined in the year or completed early in this current year, in accordance with anticipated year-end pressures. The Audit Plan for 2006/07 reflects the latest expected audit requirements following the work done in 2005/06. Reports have been issued for all audits undertaken in the year, with findings discussed with the relevant managers and appropriate actions agreed. I am pleased to report that there are no significant matters that need to be brought to the attention of this Committee in relation to the systems and regularity audit work.

3.4 *Performance Management*

The Council's Key Performance Indicators were reported to Strategic Working Groups on a quarterly basis. Many of these were examined during the year and the calculations were generally satisfactory. The systems within departments to monitor performance must continue to develop in recognition that performance management is more than preparation of Performance Indicators. The departmental review processes have been highlighted as part of the Statement of Internal Control (SIC) requirements as well as being an essential feature of the Key Lines of Enquiry (KLOE) and Comprehensive Performance Assessment (CPA).

3.5 *Financial Management Information Systems (FMIS)*

This major system, introduced in April 2004, continues to be developed and enhanced to provide high quality and timely budgetary information to all managers. Of course financial management arrangements are also an essential area of the Comprehensive Performance Assessment.

3.6 *Risk Management*

Internal Audit continued its close involvement in the development of the Council's risk management policies. Efforts to embed risk management into the Council's processes have continued and the Risk Management Group has instigated the development of a wide range of issues. An electronic risk register was acquired during the year and it is essential that the risks facing all services are identified and action plans developed. The risk register will assist in the demonstration of an increasing awareness of risk management around the Council.

3.7 *Data Matching*

The results of the National Fraud Initiative Data Matching exercise completed by the Audit Commission were made available to all local authorities during the year. These were examined and all issues resolved satisfactorily. Another similar exercise is anticipated to take place during 2006/07.

3.8 *Energy Management*

Internal Audit continued its involvement in energy contracting and management matters. The increasing costs of energy necessitate an active management approach and an Energy Task Group has been established to develop energy management practices.

4. CORPORATE GOVERNANCE

- 4.1 The Council has historically had strong governance arrangements and these are being reinforced by the continuing efforts to further enhance the risk management and performance management arrangements, including development of the Statement of Internal Control requirements.
- 4.2 The Accounts and Audit Regulations 2003 introduced the requirements for a formal Statement of Internal Control (SIC) to be prepared by the Council. Full compliance with the requirements will help to demonstrate that quality corporate governance arrangements are in place around the Council. The working group set up during 2005/06 continues to meet to develop a wide range of issues within each department, and to ensure that appropriate evidence is available to satisfy audit / inspection review.
- 4.3 Any significant issues highlighted during the SIC review processes will be prioritised within Internal Audit to ensure resolution at an early date.
- 4.4 My half-year report confirmed that several internal control matters had been satisfactorily resolved. With regard to the matter of value for money in relation to Housing Property Works, the development of the Housing Service Improvement Plan has included a range of actions being taken to improve performance management across the service. The Director of Housing is currently preparing a revised strategy for the delivery of the Housing Property Works activities. The Housing Inspectorate Key Lines of Enquiry assessment criteria also includes performance management and value for money issues.

5. AUDIT COMMISSION REVIEW OF INTERNAL AUDIT

- 5.1 The Audit Commission reviewed the Internal Audit Service against the new CIPFA Code of Practice for Internal Audit. Three areas were highlighted, relating to controls testing, formal audit strategy and Information Technology audit approach, and these are being considered.

6. STAFFING

- 6.1 The Internal Audit Plan for 2005/06 was based upon an establishment of 5 posts. It is expected that a trainee appointment will take place during 2006/07.

7. RESOURCE IMPLICATIONS

- 7.1 There are no resource implications.

8. CONSULTATION

- 8.1 The Audit Plan has been delivered following consultation and cooperation of managers around the Council.

9. OTHER MATERIAL CONSIDERATIONS

Internal Audit Service – Annual Report 2005-06

9.1 *Links to Corporate Objectives/Values*

The Internal Audit activity effectively supports all services in the delivery of the Council's priorities, together with the reinforcement of the need for accountability for public finances.

9.2 *Risk Management*

Much of the work undertaken by Internal Audit relates to minimising the risk to the Council of major system problems and failure of the internal control arrangements. Activity is directed towards providing assurances on the control environment and thereby highlighting any risk issues capable of causing damage to the Council.

Audit efforts to embed good risk management practices around the Council will continue to form a significant element of work undertaken. Of course, the full cooperation of management across the Council is essential to the maintenance of good quality governance, including risk management.

9.3 *Health and Safety*

No additional implications have been identified, beyond those contained within the Risk Management development work around the Council.

9.4 *Equality and Diversity*

No material considerations have been identified.

9.5 *Legal and Constitutional*

The Audit Plan recognises the statutory framework associated with services, the corporate governance framework, as well as the Council's constitutional arrangements.

9.6 *Other Material Considerations*

No other material considerations have been identified.

10. OVERVIEW AND SCRUTINY IMPLICATIONS

- 10.1 Following the establishment of the Audit Committee with effect from May 2006, the Council's Internal Audit Service will be reported to and monitored by the Audit Committee.

11. LIST OF APPENDICES

- 11.1 Internal Audit Plan Man Days 2005/06.

Contact Officer: Dennis McKinnell
Telephone No.: 01388-816166 ext. 4245
E-Mail Address: dmckinell@sedgefield.gov.uk

Ward(s): Not Ward Specific

Key Decision Validation:

Background Papers: Scrutiny Committee 1 – 29th March 2005 –
Internal Audit Plan 2005/06
Scrutiny Committee 1 – 30th August 2005 –
Risk Management Progress Report 2004/05
Statement of Internal Control
Scrutiny Committee 1 – 22nd November 2005
Internal Audit Plan 2005/06 – Half-Year Report

Examination by Statutory Officers:

	Yes	Not Applicable
1. The report has been examined by the Council's Head of the Paid Service or his representative.	<input type="checkbox"/>	<input type="checkbox"/>
2. The content has been examined by the Council's S.151 Officer or his representative.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. The content has been examined by the Council's Monitoring Officer or his representative.	<input type="checkbox"/>	<input type="checkbox"/>
4. Management Team has approved the report.	<input type="checkbox"/>	<input type="checkbox"/>

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SEDGEFIELD BOROUGH COUNCIL

INTERNAL AUDIT SECTION

AUDIT MANDAYS

2005/06

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AUDIT PLAN 2005/06

<u>LEISURE SERVICES</u>	TOTAL MANDAYS
Leisure Centre Bars & Catering	8.00
Leisure Centre - FLC	9.25
Leisure Centre - NALC	8.50
Leisure Centre - SLC	6.50
Leisure Centre - SSLC	14.00
Leisure Centre - Fitness Suites	3.25
Leisure Events - Encore, etc	3.50
Leisure Matters General	0.75
Locomotion Museum Canteen	8.50
Mobile Skate Park	4.00
Swimming Pools - Fishburn	7.50
Cyber Cafes	7.00
Gaming Machines	4.00
Green Lane Canteen	7.25
Playleader Schemes	<u>9.00</u>
	<u>101.00</u>

<u>NEIGHBOURHOOD SERVICES</u>	TOTAL MANDAYS
Carelink Service	6.75
Community Safety Service	10.00
Community Telemedicine	1.25
Drain Rodding Income	3.75
Homeless Service	6.50
Home Improvement Agency	9.25
Licensing	7.00
Outdoor Markets	3.75
Planning & Building Reg Fees	14.00
Rechargeable Works	0.50
Supporting People	0.50
Trade Refuse Income	<u>5.25</u>
	<u>68.50</u>

SUB-TOTAL PAGE 1	169.50
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AUDIT PLAN 2005/06

<u>HOUSING SERVICES</u>	TOTAL MANDAYS
Central Stores	15.25
Contractors' Final Accounts	19.75
Contracts & Tenders	2.25
Heating & Fire Alarm Contracts	7.00
Housing Maintenance	5.50
Disturbance & Redecoration Allowances	3.75
Housing Management	3.75
Housing Rent Arrears	10.75
Housing Rent System	5.50
Portable Data Capture	7.50
Rent Refunds	8.25
Disabled Persons' Adaptations	9.00
Homeless Service	0.50
Housing Rechargeable Works	<u>2.75</u>
	<u>101.50</u>

<u>CHIEF EXECUTIVE OFFICER</u>	TOTAL MANDAYS
Land Charges	7.00
Business Centre - Aycliffe	3.00
Business Centre - Shildon	5.75
Industrial Estates	4.00
SASDA	<u>3.25</u>
	<u>23.00</u>

SUB-TOTAL PAGE 2	124.50
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AUDIT PLAN 2005/06

<u>RESOURCES DEPARTMENT</u>	TOTAL MANDAYS
Accounts Payable System	18.00
Accounts Receivable System	13.50
Capital Receipts & Accounting	16.25
Car Allowances	4.75
Cash Office - Aycliffe	3.25
Cash Office - Ferryhill	2.50
Cash Office - Green Lane	6.00
Cash Office - Shildon	5.25
Cheque Production Controls	12.00
Collection Section Reconciliations	11.75
Controlled Stationery	0.25
Council House Sales	7.50
Council Tax System	14.75
Emergency Cheques	2.25
Emergency Receipts	1.75
Financial Checks	24.50
Housing Benefits System	40.25
ICT Audit - General	2.00
ICT Audit - IDEA Development	2.50
Imprests & Floats	12.00
Interest Free Loans	1.25
Inventories	0.25
Members' Allowances	2.00
NNDR System	16.25
Parish Recharges	4.75
Payroll System	26.50
Postal Remittances	6.00
Recurring Receipts	3.50
Rent & Water Charge Uprate	2.75
Service Charges	1.25
Treasury Management	<u>13.00</u>
	<u>278.50</u>

SUB-TOTAL PAGE 3	278.50
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AUDIT PLAN 2005/06

<u>CORPORATE STUDIES & PROJECTS</u>	TOTAL MANDAYS
Audit Committee Review	1.00
Contract & Financial Procedure Rules	3.75
Corporate Governance	8.00
Corporate Performance Indicators	2.75
CPA Work	3.50
Energy Management	56.25
Fraud & Corruption Strategy	0.25
Freedom of Information Act	0.25
NFI Data Matching Exercise	9.75
Northgate Payroll Group	0.50
Risk Management	39.25
Special Investigations - SSLC	2.75
Statement of Internal Control	<u>20.50</u>
	<u>148.50</u>

<u>AUDIT POLICY & MANAGEMENT & CONTINGENCY DAYS</u>	TOTAL MANDAYS
Audit Planning and Administration	46.50
Audit Management & Supervision	11.25
District Audit Liaison	4.00
All Departments Miscellaneous	7.00
Development & Awareness	49.50
Time Management System	26.00
Training In - House	3.00
Manager & Other Staff Meetings	26.00
Audit Sub - Groups	<u>10.00</u>
	<u>183.25</u>

SUB-TOTAL PAGE 4	331.75
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SUB-TOTAL PAGES 1 to 3	572.50
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AUDIT MANDAYS TOTAL	904.25
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26TH JUNE 2006

**REPORT OF
HEAD OF FINANCIAL SERVICES**

Portfolio: STRATEGIC LEADERSHIP

**STATEMENT ON THE SYSTEM OF INTERNAL CONTROL
AND CORPORATE GOVERNANCE**

1. SUMMARY

- 1.1 The Account and Audit Regulations 2003, requires the Council to ensure that its financial management arrangements are adequate and effective and that there is a sound system of internal control in place which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.
- 1.2 The Regulations also require the Council to conduct a review at least once a year, of the effectiveness of its system of internal control.
- 1.3 To facilitate this requirement, the Chartered Institute of Public Finance and Accountancy (CIPFA) produced guidance for Local Authorities to follow. Officers have been following this guidance by reviewing the control environment and producing evidence as part of a Statement on the System of Internal Control and Corporate Governance (SIC) as recommended
- 1.4 Although the SIC is incorporated in the Annual Statement of Accounts (SOA), best practice recommends that the SIC should be considered separately from the SOA
- 1.5 The purpose of this report is therefore to consider the content of the draft Statement on the System of Internal Control and Corporate Governance, which it is proposed should be reviewed by the Audit Committee prior to its submission to Council on 30th June 2006.

2. RECOMMENDATION

- 2.1 That the Audit Committee recommends that the Council approves the Statement on the System of Internal Control and Corporate Governance as shown at Appendix 1.

3. DETAIL

Statement of Internal Control

- 3.1 Regulation 4 of The Account and Audit Regulations 2003, as amended by the Account and Audit Regulations 2004 and 2006, requires the Council to make adequate and effective financial arrangements and to ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

- 3.2 The Regulations also state that the arrangements shall be reviewed at least once a year to ensure that the system of internal control is effective.
- 3.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) produced a comprehensive guide looking at how best to adopt and apply the areas of proper practice.
- 3.4 The guide identified a number of main issues

- **The Background and Legislation**

The guide confirmed that this was a corporate issue and corporate ownership must be achieved. The most senior officer and Member must sign the statement and they must therefore be satisfied that the document is supported by reliable evidence and accurately reflects the internal control environment.

The guide emphasised that the statement is about all corporate controls and is not confined to financial issues.

The guide suggested that the following steps are integrated into the review of internal control and assurance process

- Establish statutory obligations and organisational objectives
- Identify the key risks to the achievement of the objectives
- Identify and evaluate key controls and management of principal risks
- Obtain assurances on the effectiveness of key controls
- Evaluate assurances and identify gaps
- Create action plans to address weaknesses and ensure continuous improvement in internal control systems
- Prepare a statement on internal control
- Report to Cabinet/Executive

- **Statement on the System of Internal Control and Corporate Governance (SIC)**

The SIC is a corporate document involving a variety of people charged with delivering governance within the Council.

- Directors, Heads of Service and Managers assigned with the delivery of services and the ownership of risks
- The Financial Officer responsible for the accounting control systems and the preparation of the statement of accounts
- The Monitoring Officer in meeting statutory responsibilities
- Members through Audit or Scrutiny Committees
- Others responsible for providing assurance

The guide suggested that the SIC, as a corporate document, should be owned by all senior Officers and Members of the Council. It recommended a shared approach to compile the SIC, because any delegation to a single individual or section would dilute the statement's significance and encourage other people to distance themselves from their proper responsibilities.

- 3.5 Management Team considered a comprehensive report on the requirements to produce the SIC in February 2005 and agreed that a group of senior Officers from all

Departments should gather the appropriate evidence as highlighted in paragraph 3.4 above.

Management Team agreed that every Director was required to comprehensively certify that all significant systems, including operational, as well as financial performance management and risk management arrangements are being maintained and that a full schedule of important control systems be prepared. It would demonstrate how services were organised, controlled and monitored, as well as detailing how financial, performance and risk management is being delivered.

3.6 The group of senior officers has met on a regular basis since April 2005 to ensure that all relevant evidence was gathered and is available for inspection and review by the Audit Commission as part of their inspection of the Councils management arrangements.

3.7 Attached at Appendix 1 is the Statement on the System of Internal Control and Corporate Governance for the 2005/2006 financial year.

In accordance with CIPFA guide and best practice the statement covers the following areas.

- The scope of responsibility
- The purpose of the system of internal control
- The internal control environment
- Major developmental areas
 - Performance management
 - Risk management
 - A review of the effectiveness of the system of internal control
 - Corporate governance arrangements

3.8 Appropriate Departmental Assurance Statements have been received from all Directors and Heads of Services within the Chief Executive's Department, in respect of the 2005/2006 financial year.

3.9 Whilst the subsequent corporate statement is generally very positive, there are a number of issues identified in section 5 of the document where some work was required to be undertaken during 2005/2006 to improve the control environment and further work is planned to ensure that the present systems have fully effective controls in place .

4. CORPORATE GOVERNANCE

4.1 The Council is responsible for ensuring that strong and effective Corporate Governance arrangements are in place which will demonstrate that:

- It has community focus.
- Effective service delivery arrangements.
- Robust structures and processes.
- Effective risk management and internal controls.
- Proper standards of conduct.

The principles underpinning these five 'dimensions' are accountability, integrity, openness and inclusivity.

The Council approved a Local Code of Corporate Governance in 2002, detailing the measures the Council takes to demonstrate how it meets the requirements of the five dimensions. An Action Plan was compiled to ensure that any tasks that were needed to be undertaken to fully comply with the Code were identified and regular monitoring of progress being made to complete the tasks is made by Management Team.

5. CONCLUSIONS

- 5.1 A substantial amount of progress has been achieved during the last 12 months to ensure that all appropriate control systems are in place and that evidence is available to support the statement.
- 5.2 It will be necessary to continue to review and update the evidence to ensure that all changes to the existing arrangements are documented.

6. RESOURCE IMPLICATIONS

There are no financial issues arising directly from this report.

7. CONSULTATIONS

Directors and senior Officers from all Departments have been involved in the production of this Statement.

8. LINKS TO CORPORATE OBJECTIVES/VALUES

Reviewing the effectiveness of the Council's systems of internal controls ensures that the following corporate values have been addressed.

- Being responsible with and accountable for public finances

9. RISK MANAGEMENT

- If the Council is not able to demonstrate to the Audit Commission that it has an effective system of internal controls and corporate governance arrangements in place, or any weaknesses were not being addressed, it would inevitably have a detrimental effect on any Comprehensive Performance Assessment (CPA) review, resulting in the Council not being able to achieve the highest possible rankings.
- If there were not adequate control arrangements in place, there is the possibility of financial issues being sustained by the Council as a result of fraud, overpayments to creditors, loss of income etc.
- If detailed procedural notes are not drawn up as part of the evidence to support the SIC, there could be a possibility that the business critical services provided by the Council could be affected by events such as a Pandemic Flu Outbreak, a major fire or flood or utility supply disruption etc

10. HEALTH AND SAFETY

No additional implications have been identified.

11. EQUALITY AND DIVERSITY

No additional implications have been identified.

12. LEGAL AND CONSTITUTIONAL

The Council is complying with its statutory responsibilities to produce the statement.

13. OTHER MATERIAL CONSIDERATIONS

No other material considerations have been identified.

14. LIST OF APPENDICES

- 1 Statement on the System of Internal Control and Corporate Governance

Contact Officer: Harold Moses
Telephone No: (01388) 816166 Ext. 4385
Email Address: hmoses@sedgefield.gov.uk

Ward(s) Proposals are not ward specific

Background Papers:
 Account and Audit Regulations 2003, 2004, 2006
 CIPFA Guide to the Statement of Internal Control
 Departmental and Head of Services Assurance Statements

Examination by Statutory Officers:

	Yes	Not Applicable
1. The report has been examined by the Council's Head of the Paid Service or his representative.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2. The content has been examined by the Council's S.151 Officer or his representative.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. The content has been examined by the Council's Monitoring Officer or his representative.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
4. Management Team has approved the report.	<input checked="" type="checkbox"/>	<input type="checkbox"/>

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Item 6

REPORT TO AUDIT COMMITTEE

26th JUNE 2006

REPORT OF HEAD OF FINANCIAL SERVICES

Portfolio: STRATEGIC LEADERSHIP

STATEMENT OF ACCOUNTS (FOR YEAR ENDED 31ST MARCH 2006)

1. SUMMARY

This report deals with the statutory requirements set out in the Accounts and Audit Regulations 2003 for the production and publication of the Annual Statement of Accounts.

2. RECOMMENDATIONS

- 2.1 That the Statement of Accounts for the year ended 31st March 2006 be recommended to Council for approval.

3. DETAIL

The Statement of Accounts is being presented to this Committee so that it can consider the content and recommend that the Statement of Accounts to the Council for Approval. The minutes of this meeting together with their recommendations will be circulated to all Members of Council on the 30th June prior to this report being considered by them.

- 3.1 The Account and Audit Regulations 2003 require the Council to approve the Accounts of the Authority by no later than the 30th June, prior to their publication and the formal signing off by the District Auditor.
- 3.2 Following the Audit of the Statement of Accounts, which has to be completed by no later than 30th September 2006, the District Auditor will submit a formal report on the Audit. If there are any material changes to the Statement of Accounts it will also be necessary for Council to re-approve the document.
- 3.3 Once the Audit has been completed the District Auditor will issue an Audit Certificate, on receipt of that document it is responsibility of the Head of Financial Services to publish the Statement of Accounts. In order to comply with this requirement apart from producing copies of the Statement it will also be placed on the Council's website.

4. FINANCIAL IMPLICATIONS

4.1 Paragraphs 4.5 and 4.7 detail the outturn financial position for the two principal revenue accounts that the Council maintains:

- General Fund
- Housing Revenue Account

4.2 Para. 4.8 details the impact on the Council's level of revenue reserves of the outturn position on the revenue accounts.

4.3 Para. 4.9 details the outturn financial position on the Council's capital programme for both Housing Revenue Account and General Fund, how the programme has been financed and recommended amendments to the overall capital programme control totals for 2006/2007.

4.4 Cabinet Members are kept advised of the likely outturn position with regard to their portfolios' revenue and capital budgets during the financial year by way of quarterly budgetary control reports to Cabinet.

4.5 GENERAL FUND

(a) 2005/2006 Initial Plans

Overall the Council received a relatively small increase in Revenue Support Grant considering the financial pressures facing the Council through pay awards, pension costs, insurance premiums and in meeting the cost of improving key services.

However, the Council was still able to include significant service growth in key priority areas in the 2005/06 Budget largely funded from the additional investment income generated from significant housing land sale capital receipts received by the Council and an increased use of balances to support revenue spending.

The Council approved a budget requirement of £12,410,000 for 2005/2006, which represented a net increase of £410,000 or 3.4% on 2004/2005. However after taking account the higher level of investment income and increased use of balances, the actual increase in spending was around 14%.

As a result, the additional investment was achieved while restricting the increase in Council Tax to 3%.

The Budget assumed a use of balances of £800,000 from the Budget Support Fund.

(b) 2005/2006 Actual Position

The quarterly reporting of each portfolio's spending performance and probable outturn position to Cabinet and Strategic Working Groups has ensured that effective budgetary control has been achieved during 2005/2006.

The financial outturn position on the General Fund has improved considerably throughout 2005/2006, primarily as a result of the following items:-

- Significant additional subsidy entitlement in respect of Housing and Council Tax Benefits, and better than anticipated recovery of overpaid benefit entitlement.
- An unexpected grant was received from the ODPM in respect of the Local Authority Business Growth Initiative of £147,982 for which the Council has yet to determine a use. In the meantime it has been added directly to the Budget Support fund
- Several rating appeals in respect of the Council's Leisure Centres were resolved with the District Valuer resulting in refunds in excess of £200,000 that were added to the Contingency Fund.
- During the year the turnover of staff employed by the Council, which is normally in the region of 2.5% per annum, was running at a much higher level than expected. As a consequence the impact of vacant posts and delays in filling posts resulted in significant cost savings on the salaries budget.
- The Job Evaluation review was completed and paid.
-

Throughout the year regular budgetary control reports have been considered by Cabinet covering all Portfolios and service areas. The outturn figures reflected in this report summarises the position shown in the final budgetary control report to be considered by Cabinet on the 29th June 2006.

A summary of the outturn on the Council's General Fund is shown in the table below:-

	What we Spent 2005/2006		
	Revised Budget £000	Actual £000	(Underspend) Overspend £000
Portfolio			
<i>Resource Management*</i>	(1,356)	(1,269)	87
<i>Culture and Recreation</i>	4,015	3,913	(102)
<i>Environment</i>	4,643	4,642	(1)
<i>Housing General Fund</i>	1,851	1,809	(42)
<i>Regeneration</i>	2,190	2,009	(181)
<i>Community Safety</i>	755	736	(19)
<i>Supporting People</i>	1,112	444	(668)
Total	13,210	12,284	(926)
<i>(Use of) / contribution to Budget Support Fund</i>	(800)	126	926
Budget Requirement	12,410	12,410	-

* *The Resource Management Portfolio shows a credit budget and actual spend as it includes internal recharges to frontline services in respect of support services and significant interest receivable in relation to the Council's short term investments.*

The budgets for 2005/2006 have been fully revised to take account of the full reallocation of corporate support services and asset charges fully recharged to service areas.

As a result of the favourable outturn position on the General Fund, the Council has been able to make a contribution of £126,000 to the Budget Support Fund as opposed to the budgeted use of balances of £800,000.

A detailed summary of the movements in the levels of all of the Council's Reserves is shown in paragraph 4.8.

4.6 REVENUE PROVISIONS INTO 2006/2007

In view of the Council's favourable outturn position, I have made provision in the 2005/2006 accounts to carry forward unused resources amounting to £349,500 into the current year to meet specific one off needs as detailed below:-

	£000
General Fund	
<i>Organisational Training & Development Initiatives</i>	20
<i>Wear Valley ICT Management Fee</i>	9
<i>Replacement Catering Equipment – Green lane</i>	4
<i>Phoenix house – Structural Repairs</i>	18
<i>Local Strategic Partnership- Admin Team</i>	53
<i>Waste Management Strategy</i>	2
<i>Waste Recycling</i>	24
<i>Arts Centre Feasibility Study</i>	20
<i>Open Spaces Need Assessment Project</i>	15
<i>Community Economic Appraisals</i>	25
<i>CCTV Camera Maintenance</i>	3
<i>Housing Benefits Administration Improvement Initiatives</i>	145
Housing Revenue Account	
<i>ICT Software - Decent Homes Initiatives</i>	11
Total Revenue Provision	349

In addition the Council has received grant funding in respect of specific initiatives that remained unspent as at the 31st March 2006 amounting to £733,100. The Budget Framework already assumes that some of this grant funding will be utilised in 2006/2007, however if the specific programmes do not need all of the funds in the current financial year, the unspent resources will be rolled forward into later years to meet specific requirements of the relevant initiatives.

	£000
<i>Community Empowerment Fund</i>	12
<i>Homeless Support</i>	32
<i>New Opportunities Fund</i>	8
<i>Planning Delivery Grant</i>	233
<i>Local Enterprise Growth Initiative</i>	64
<i>Sure Start – Local Programme Grant</i>	384
Total Grant Provisions	733

4.7 HOUSING REVENUE ACCOUNT

(a) 2005/2006 Initial Plans

In 2005/2006 further refinements were made by the Government to the way in which subsidy allowances for management and maintenance were derived as part of major methodology changes. As a consequence the Council's management and maintenance subsidy allocations were increased by 20%. This and other changes meant that additional resources of around £1.6 million were made available to the HRA to invest in the management and maintenance of the Council's housing stock.

However, the HRA continues to be in a negative subsidy position, meaning that for 2005/2006 the Council is required to make a payment of £1.9m to the Government to be redistributed nationally to other Housing Authorities.

(b) 2005/2006 Actual Position

The approved budget for 2005/2006 assumed that the HRA would break even with no requirement for a contribution to or from Balances.

The financial outturn position on the HRA shows a contribution to HRA Balances of £1,190,000.

A summary of the final outturn on the Council's Housing Revenue Account is shown in the table below:

	What We Spent 2005/2006		
	Planned £000	Actual £000	(Underspend) Overspend £000
Income			
<i>House Rents Net of Voids and Bad Debts</i>	20,923	21,199	(276)
<i>Other Rents</i>	816	844	(28)
<i>Government Subsidies</i>	124	124	-
<i>Other Grants, Contributions and Charges</i>	1,700	1,734	(34)
<i>Investment Income</i>	119	145	(26)
<i>Extraordinary Items</i>	-	740	(740)
Total Income	23,682	24,786	(1,104)
Expenditure			
<i>Management Costs</i>	8,063	7,944	(119)
<i>Maintenance Costs</i>	5,281	5,486	205
<i>Capital Financing</i>	6,116	6,147	31
<i>Revenue Contribution to Capital</i>	1,521	1,368	(153)
<i>Negative Subsidy Payable</i>	1,871	1,896	25
<i>Statutory Contributions to General Fund</i>	830	755	(75)
Total Expenditure	23,682	23,596	(86)

Contribution to HRA Balances	-	1,190	(1,190)
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The contribution to HRA balances is made up of the reimbursement of LSVT costs totalling £740,000 from Sunderland Housing Group and a surplus of income over expenditure on the HRA of £450,000.

This surplus was largely as a result of higher than estimated rent income as a result of a downturn in the level of RTB sales and a reduced revenue contribution to finance the capital programme.

4.8 RESERVES

The Budget Framework Report, presented to Council on the 24th February 2006 considered in detail the anticipated level of reserves available to the Council at the year-end. That report set out the purpose for which reserves were being held and, where appropriate, established prudent and robust guidance on the level of balances that should be maintained.

The report estimated a total level of reserves at 31st March 2006 of £10.68m. The following statement sets out the actual position as at the 31st March 2006 which shows an increase in the overall level of resources available to the Council of £1,129,000, compared to those previously reported in March. This is mainly attributable to the significant transfers to balances from the HRA and General Fund as outlined in paragraphs. 4.5 and 4.7

	Balances at	
	31/3/2005	31/3/2006
	£000	£000
General Fund		
Earmarked Reserves		
<i>Budget Support Fund</i>	1,622	1,721
<i>Insurance Fund</i>	1,099	1,237
<i>Economic Development Fund</i>	267	183
<i>Asset Management Fund</i>	502	502
<i>Private Sector Housing Fund</i>	203	203
<i>Training Services Fund</i>	386	458
<i>Youth Development Fund</i>	151	109
<i>MRP (Debt Repayment) Fund</i>	706	456
<i>Building Control Fund</i>	-	21
<i>Other Earmarked Funds</i>	63	51
	4,999	4,941
Non-Earmarked Reserves		
<i>General Reserves</i>	2,240	2,240
Housing Revenue Account		
<i>HRA Working Balance</i>	3,460	4,647
Total Reserves	10,699	11,828

The purposes for which the main reserves are held are detailed below:

Budget Support Fund

This was set up to provide support to the General Fund to allow spending levels to be adjusted over the medium term. The Medium Term Financial Plan 2006-2009 [MTFP] anticipates that £1.5m of this fund will be used over the next three years.

Insurance Fund

Established to cover the Council's self-insured risks. Whilst the revised balance will fall as claims continue to be met, the current level of funding is regarded as satisfactory in the medium term.

Economic Development Fund

Set up to provide incentives to industry, whilst the Fund has lasted much longer than initially anticipated. There are ongoing commitments against the fund and it is expected that as a consequence of no external grant funding being available to support the incentives programme the fund has a very limited future life.

Training and Employment Services

This Fund is used to support the Council's training schemes, which have provided training opportunities to thousands of people over many years.

Asset Management Fund

This fund is available to provide support to meet the Council's commitments under the Asset Management Plan. The MTFP] anticipates that £0.3m of this fund will be used over the next three years.

Private Sector Housing Fund

Established some years ago, when Housing Association loans were repaid, to provide support to private sector housing regeneration initiatives.] The MTFP anticipates that £0.1m of this fund will be used over the next three years.

Youth Development Fund

This Fund is used to support projects aimed at developing the skills and talents of young people in Sedgefield Borough. This will provide significant additional funds to support 'KoolKash' initiatives and is in line with the outcome from the review of Children and Young People.

Other Earmarked Funds

This covers a range of small balances, and funds which are used for technical accounting purposes.

General Reserve

The balance on this reserve represents around 20% of net revenue spending, which is well above the minimum level advised by the Audit Commission of 5%. However, the Council has always held a significant reserve reflecting its tradition of being an active Council, prepared to

respond to new initiatives and it considers the level of balances to be adequate and appropriate for this authority and a balance of £2m is regarded as a target to be maintained in the medium term.

Housing Revenue Account

Balances are also in a reasonably healthy state and have been built up over the last few years primarily as a result of buoyant capital receipts being generated, which have been used to finance capital expenditure rather than using revenue resources. The MTFP anticipates that £1.5m will be used over the next three years to support the capital programme so that the Council achieves its decent homes target.

Collection Fund

The Council, as billing authority, maintains the Collection Fund accounts in respect of all the precepting authorities within Sedgefield Borough. Surpluses and / or losses on the Fund have to be used to support future Council Tax bills. As at the 31st March 2006 there was an accumulated surplus on the Fund of £758,000, of which £655,000 will be paid over to the precepting authorities in 2006-2007. Of the remaining balance and in anticipation of a final outturn surplus in excess of that at the 31st March 2006, Sedgefield Borough Council utilised £200,000 to fix its own level of Council Tax in 2006/2007.

4.9 CAPITAL INVESTMENT & FINANCE

(a) Capital Investment in Sedgefield Borough 2005/2006

In preparing the Council's Capital Budgets for 2005/2006, account had to be taken of the resources available to the Council in the form of Government grants and allocations such as the Major Repairs Allowance, Supported Borrowing Approvals and the Council's own capital resources such as usable capital receipts, revenue contributions and accumulated reserves.

The approved net spending target for 2005/2006 was subsequently set at £15.8 million with £3.8 million set aside for General Fund Services, £7.0 million for Council Housing Services and £5.0 million for Major Regeneration Initiatives to be funded from Housing Land Capital Receipts.

The spending targets were revised during the year to reflect outstanding commitments carried forward from 2004/2005, the approved use of capital contingencies and the reduction in the Major Regeneration allocation to reflect delays in receiving capital receipts from land sales.

Following these amendments, the revised net spending approval was set at £15.293m, with £7.300m set aside for Council Housing Services, £4.939m for General Fund Services and £3.054m for Major Regeneration Initiatives.

Taking into account additional external funding secured during the year, the total gross spending target was £20.309m with £9.955m for General Fund, £7.300m for Council Housing and £3.054m for Major Regeneration Initiatives.

The figures in the tables below detail the actual gross and net capital expenditure in 2005/06 in respect of the General Fund and Council Housing Programmes. The net spend shown is after the deduction of any external capital grants and contributions received during the year and therefore represents the expenditure to be financed from the Council's own resources and Government allocations built into the base budget such as the Major Repairs Allowance and Supported Borrowing Allocations.

(b) General Fund Services

The Programme for 2005/2006 and actual net spend (after grants and capital contributions) can be summarised as follows:-

	Planned Net Spend £000	Actual Gross Spend* £000	Less Capital Grants and Contributions £000	Actual Net Spend £000
Resource Management				
<i>Computing and E-Government</i>	1,323	807	(279)	528
<i>Offices and Depots</i>	175	195	-	195
<i>Vehicles and Equipment</i>	132	116	-	116
Culture and Recreation				
<i>Leisure Centres</i>	673	633	(1)	632
<i>Gymnastics Centre</i>	-	1,083	(1,083)	-
Regeneration				
<i>Spennymoor Town Centre</i>	150	853	(822)	31
<i>Neighbourhood Regeneration</i>	520	405	(140)	265
<i>Other Schemes</i>	224	118	(43)	75
<i>Economic Development</i>	359	324	(250)	74
Non- HRA Housing				
<i>Improvement Grants</i>	1,000	1,045	(243)	802
<i>Other Private Sector Housing</i>	-	652	(650)	2
Community Safety	193	51	-	51
Environment	120	120	(1)	119
Supporting People				
<i>Sure Start Centre</i>	-	615	(615)	-
<i>Other Initiatives</i>	70	56	-	56
Major Regeneration Initiatives	3,054	809	(19)	790
TOTAL	7,993	7,882	(4,146)	3,736

* Net of deminimus spend transferred to Revenue.

The underspend can be attributed to a number of reasons:-

- Where capital schemes are funded through external agencies, such as the

Single Capital Pot these resources must be spent first as in most instances if the resources are not defrayed within the year they have to be repaid.

- Delays in the implementation of the Major Regeneration Initiatives Programme pending the approval by Council of the overall Borough Regeneration Master Plan.
- Late Approval from the Government Office meant a later than anticipated start on the construction of the two Sure Start Centres.
- Delays in the completion of a number of schemes on the Regeneration and Economic Development Capital Programme mainly in respect of Spennymoor Town Centre, Neighbourhood Renewal and Aycliffe Industrial Park
- A number of ICT capital projects were delayed or did not go ahead as planned during the year

The Council has again been successful in securing additional grants and contributions from external sources to support its capital investment. The amounts to be financed from the Council's own resources were therefore lower than anticipated.

c) Housing Services

The Housing Investment Programme (H.I.P.) provides, in the main, for the re-vitalisation of the Council's dwellings and associated estates. The significant areas of the Programme in 2005/2006 were all designed to help the Council achieve the Government's Decent Homes standard.

The HRA programmed spend for 2005/2006 is shown below:-

	Planned Net Spend £000	Actual Gross Spend* £000	Less Capital Grants and Contributions £000	Actual Net Spend £000
Council Dwellings				
<i>Tenant led improvements</i>	2,380	2,573	-	2,573
<i>Kitchen Units</i>	350	451	-	451
<i>Structural Repairs</i>	460	331	-	331
<i>External Fabric Replacement</i>	550	512	-	512
<i>Central Heating & Insulation works</i>	1,415	1,401	-	1,401
<i>PVCU Doors / External Joinery</i>	200	295	-	295
<i>Re-roofing</i>	1,300	1,122	(26)	1,096
<i>Other Works to Council houses</i>	255	60	-	60
Other Works				
<i>Disabled Persons Adaptations</i>	100	117	-	117
<i>Infrastructure Works</i>	61	120	-	120
<i>Council Shops</i>	85	195	-	195
<i>Sheltered Housing Schemes</i>	144	34	-	34
Total Housing Capital Spend	7,300	7,211	(26)	7,185

*** Net of de minimus spend transferred to revenue**

A report has recently been considered by Cabinet to align available housing capital resources to spending programmes in order to achieve the decent homes targets by 2011/12.

Overall, the Council therefore spent £15.093m gross on the 2005/06 Capital Programme against a gross spending target of £20.309m. The financing of the capital programme outturn is detailed in (d) below:-

(d) Capital Financing in 2005/2006

The following table sets out how the 2005/2006 Capital Programme was financed:-

	£000
Expenditure to Finance	
General Fund	7,882
HRA	7,211
	15,093
Financed By	
Major Repairs Allowance (MRA)	5,038
Capital Receipts	3,840
Capital Grants	2,139
Capital Contributions	2,034
Direct Revenue Financing	1,368
Supported Capital Expenditure	674
	15,093

(e) Capital Programme – Carry Forward to 2006/2007

The following table highlights the outstanding commitments on each portfolio's capital programme, which will need to be carried forward into 2006/2007.

These authorised carry-forward allocations are in addition to the already approved capital allocations for 2006/2007 and the 2006/2007 Capital Programme will need to be adjusted accordingly:-

Portfolio/Capital Programme	Underspend (Overspend)*	Commitments Carry Forward To 2006/2007
	£000	£000
ICT	(642)	635
Green Lane	19	-
Chilton depot	(16)	16
Culture and Recreation	(48)	48
Environment	(1)	-
Regeneration	(523)	518
Economic Development	(285)	281
Community Safety	(142)	142
Supporting People	(14)	14
Housing General Fund	29	-
Major Regeneration Initiative	(2,264)	401
Housing Revenue Account	64	-
Total	(3,823)	2,055

*The underspend / overspend figures shown are net of any deminimus capital spend transferred to revenue and any capital grants and contributions not already built into the 2005/06 Base budget

(f) Usable Capital Receipts

As a consequence of the underspend in the 2005/2006 Capital Programme and the buoyant level of Capital Receipts generated, the Council has Usable Capital Receipts available to finance future capital works, amounting to £15.151m as at 31st March 2006. In accordance with decisions taken by Council in July 2004 £12.824m of these Capital Receipts are earmarked specifically for regeneration schemes. The balance of £2.327m is available to support the General Fund and Housing Revenue Account capital programmes

5. RESOURCE IMPLICATIONS

There are no further resource implications arising from this report.

6. CONSULTATIONS

Comprehensive consultation has previously been held during the construction of the 2005/2006 Budget Framework. This report does not contain any proposals or recommendations requiring further consultation.

7. OTHER MATERIAL CONSIDERATIONS

7.1 *Links to Corporate Objectives/Values*

The Council's Corporate Objectives and Values have guided the preparation of the 2005/06 Budget Framework throughout. Resource availability has been fully re-assessed and directed to assist in achieving the Council's key priorities as set out in the Corporate Plan. Particular emphasis has been placed on the following Corporate Values:-

- *Be responsible with and accountable for public finances.*
- *Consult with service users, customers and partners.*

7.2 *Risk Management*

There has been no further risks identified other than those highlighted in the report to Council on the 25th February 2005.

7.3 *Health and Safety*

No additional implications have been identified.

7.4 *Equality and Diversity*

No material considerations have been identified.

7.5 *Legal and Constitutional*

The Budget Framework for 2005/06 was prepared in accordance with the Council's Constitution. No other legal or constitutional implications have been identified.

8. OVERVIEW AND SCRUTINY IMPLICATIONS

Consultation and engagement with Overview and Scrutiny Committees has previously been held in development and review of the 2005/2006 Budget Framework.

Contact Officer: Harold Moses [Head of Financial Services]

Telephone No.: 01388-816166 ext. 4385
E-Mail Address: hmoses@sedgefield.gov.uk
Ward: Not Ward specific
Key Decision: Validation

Background Papers: ~ Report to Special Council 25th February 2005 – Budget Framework 2005/2006.
 ~ Report to Council 29th June 2005- Statement of Accounts 2004-2005
 ~ Reports to Cabinet 15th September 2005- Revenue & Capital Budgetary Control Report – Position at 31st July 2005
 ~ Reports to Cabinet 24th November 2005- Revenue & Capital Budgetary Control Report – Position at 30th September 2005
 ~ Reports to Cabinet 2nd March 2006- Revenue & Capital Budgetary Control Report – Position at 31st December 2005
 ~ Reports to Cabinet 29th June 2006- Revenue & Capital Budgetary Control Report – Outturn Position at 31st March 2006

Examination by Statutory Officers:

	Yes	Not Applicable
1. The report has been examined by the Council's Head of the Paid Service or his representative.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
2. The content has been examined by the Council's S.151 Officer or his representative.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. The content has been examined by the Council's Monitoring Officer or his representative.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
4. Management Team has approved the report.	<input type="checkbox"/>	<input checked="" type="checkbox"/>

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26TH JUNE 2006

REPORT OF THE HEAD OF FINANCIAL SERVICES

Portfolio: STRATEGIC LEADERSHIP

PROPOSED TRAINING ARRANGEMENTS FOR MEMBERS OF THE COMMITTEE

1. SUMMARY

- 1.1 In order for the Audit Committee to be fully effective, it is essential that training be provided to allow Members to obtain some further detailed knowledge and increased awareness of issues that will be brought to the Committee for consideration.
- 1.2 The Role and Functions of the Committee have already been agreed by Council and it will therefore be necessary to provide appropriate training to take into account those specific issues.
- 1.3 There are a number of options available to facilitate appropriate training and these are described with the report.

2. RECOMMENDATION

- 2.1 That the appropriate officers of the Council and the Audit Commission arrange for suitable training to be provided following consideration of any proposals by the Chair and Vice-Chair of the Committee.

3. DETAIL

- 3.1 The report, which the Council approved on 19th May 2006 (Minute C.6/06 refers) to establish this Committee, referred to guidance that had been issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 3.2 The guidance issued by CIPFA did recommend that Members of an Audit Committee should be properly trained to fulfil their role and to ensure that the Committee will be fully effective.
- 3.3 There are a number of ways in which training can be provided to Members.

External Provision

There are a growing number of consultants who provide (usually) a day-long course at various locations throughout the country on a regular basis which has a pre-determined content. The costs normally associated with this type of training are typically £300 to £400 per day, per member. In addition there are the costs of getting to the venue, as well as accommodation costs, depending upon the location and length of the course.

Some consultants are also willing to provide training locally and will tailor the training to take into account any specific requirements of a local authority and

its members. There is a minimal cost of approx. £1,200 plus the cost of the consultant travelling to the appropriate venue as well as the potential of overnight accommodation costs also being incurred.

Internal Provision

The Council's officers, together with Audit Commission staff, could provide some training within Council owned premises, which could be tailored to the requirements of the Members of the Committee.

A mix of internal and external training could be provided.

3.4 It is suggested that officers from the Council and the Audit Commission prepare a Training Programme for consideration, by the Chair and Vice-Chair of this Committee, taking into account the Role and Functions of the Committee.

3.5 It is envisaged that over time the training could encompass the following key areas. There will be other areas where some form of training to cover specific issues will be arranged as and when necessary.

- The Role of the Audit Commission
- The principles of Risk Management
- The Role of Internal Audit
- The Requirements of the Statement of Internal Control
- The Content of the Annual Statement of Accounts

3.6 Members may also wish to identify other relevant training that they consider relevant.

3.7 A number of suitable documents and access to secure online information could also be obtained to ensure that Members can have an appropriate reference source of information to access at all times.

4. RESOURCE IMPLICATIONS

4.1 It will be necessary to make arrangements for a suitable venue to be booked and appropriate documents and online access to specific websites to be made available.

4.2 The costs associated for Member training will be accommodated within the existing revenue budget for Member training.

5. CONSULTATION

5.1 The Chair and Vice-Chair will be consulted about the content and time scale of the training to be provided.

6. OTHER MATERIAL CONSIDERATION

6.1 ***Links to Corporate Objectives/Values***

6.2 ***Risk Management***

If Members are inadequately trained, the Committee may not be able to be effective.

6.3 Health and Safety

No additional implications have been identified.

6.4 Equality and Diversity

No material considerations have been identified.

6.5 Legal and Constitutional

There are no legal or constitutional issues arising from this report.

6.6 Overview and Scrutiny Implications

There are no Overview and Scrutiny implications.

Contact Officer: Harold Moses (Head of Financial Services)
Telephone: 01388-816166 Ext. 4385
E-Mail: hmoses@sedgefield.gov.uk

Ward(s): Not Ward Specific

Background Papers: **The Implications of the Establishment of An Audit Committee:**
- Report to Cabinet 13/4/06
- Report to Standards Committee 5/5/06
Establishment of an Audit Committee:
- Report to Council 19/5/06

Examination by Statutory Officers:

	Yes	Not Applicable
1. The report has been examined by the Council's Head of the Paid Service or his representative.	<input type="checkbox"/>	<input type="checkbox"/>
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4. Management Team has approved the report.	<input type="checkbox"/>	<input type="checkbox"/>

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26TH JUNE 2006

REPORT OF THE HEAD OF FINANCIAL SERVICES

Portfolio: STRATEGIC LEADERSHIP

PROPOSED WORK PLAN FOR 2006/2007 MUNICIPAL YEAR

1. SUMMARY

- 1.1 The Council, at its meeting on the 19th May 2006 (Minute C.6/06 refers), agreed to establish the Audit Committee and determined that it should meet four times a year.
- 1.2 The purpose of this report is therefore to provide an indication of the potential Work Plan for the remainder of the 2006/07 municipal year.

2. RECOMMENDATIONS

- 2.1 That the potential Work Plan for the 2006/07 municipal year, as shown at Appendix 1, be noted.

3. DETAIL

- 3.1 The Council has determined the Role and Function of the Audit Committee and agreed that it should meet four times a year.
- 3.2 There are a number of reports, which would normally be expected to be presented to the Committee during the remainder of the 2006/07 municipal year, that are shown at Appendix 1.
- 3.3 It should be noted that the Audit Commission will also present various reports during the year but it is not possible to determine when specific reports will be presented.
- 3.4 It may also be necessary to arrange a special meeting from time to time to bring to the Committee's attention an issue that, from a timing point of view, should be considered before the next scheduled meeting of the Committee, for whatever reason. The Chair and Vice-Chair will be consulted prior to any special meeting being arranged.

4. RESOURCE IMPLICATIONS

- 4.1 There are no resource implications arising from this report.

5. CONSULTATIONS

- 5.1 Advice and guidance was available from the Commission and CIPFA as to the Role and Functions of an Audit Committee.

6. OTHER MATERIAL CONSIDERATIONS

6.1 **Links to Corporate Objectives/Values**

The purpose of identifying the Role and Function of this Committee is to ensure that the Council is:-

- *Being responsible with and accountable for public finances.*
- *Being open, accessible, equitable, fair and responsive.*

6.2 **Risk Management**

No material considerations have been identified.

6.3 **Health and Safety**

No additional implications have been identified.

6.4 **Equality and Diversity**

No material considerations have been identified.

6.5 **Legal and Constitutional**

There are no legal or constitutional issues arising from this report.

7. OVERVIEW AND SCRUTINY IMPLICATIONS

There are no Overview and Scrutiny implications.

Contact Officer: Harold Moses (Head of Financial Services)
Telephone: 01388-816166 Ext. 4385
E-Mail: hmoses@sedgefield.gov.uk

Ward(s): Not Ward Specific

Background Papers: **The Implications of the Establishment of An Audit Committee:**
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Establishment of an Audit Committee:
- Report to Council 19/5/06

Examination by Statutory Officers:

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3. The content has been examined by the Council's Monitoring Officer or his representative.	<input type="checkbox"/>	<input type="checkbox"/>
4. Management Team has approved the report.	<input type="checkbox"/>	<input type="checkbox"/>

AUDIT COMMITTEE**PROPOSED WORKPLAN FOR REST OF 2006/07 MUNICIPAL YEAR**

- Scheduled Meeting** Internal Audit –
30th October 2006 Progress Report to monitor Annual Audit Plan
Audit commission Reports (if available)
Review of Treasury Management Activities 2006/07
- Scheduled Meeting** Internal Audit –
29th January 2007 Progress Report to monitor Annual Audit Plan
Audit Commission Reports (if available)
Treasury Management Strategy 2007/08
- Scheduled Meeting** Audit Plan for 2007/08
23rd April 2007 Audit Commission Annual Management and Inspection Letter Re:
2005/06 Audit Review.
Review Statement of Internal Control 2006/07
Review Corporate Governance Arrangements 2006/07
Review Risk Management Arrangements 2006/07

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