

Audit Detailed Report

October 2006



Interim Audit Report

Sedgefield Borough Council

Audit 2005/2006

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.

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Introduction

- 1 2005/06 has seen a number of significant changes to the regulatory framework under which we conduct your audit.
 - It is the first financial year in which International Standards of Auditing have applied to the audit of the Authority.
 - Parliament has approved a new Code of Audit Practice (CoAP), which sets out the work to be undertaken by auditors. This now additionally requires us to give an opinion on the Authority's arrangements to secure value for money.
- 2 Our interim opinion audit comprised our review of the Authority's systems and the operation of their key controls. This report summarises the results of our interim visit and the implication on our work at final accounts.

Audit approach

- 3 The audit has been carried out to be ISA (International Standards on Auditing, United Kingdom and Ireland) compliant in accordance with New Code of Audit Practice. The ISA's were introduced by the Auditing Practices Board, applying to all accounting periods starting after 15 December 2004.
- 4 The most significant changes from our previous approach have resulted from the introduction of ISA 315, 'Understanding the entity and its environment' and ISA 330 'the Auditor's procedures in response to assessed risks'.
- 5 These ISA's place a greater emphasis on identifying information systems that lead to material balances in the financial statements, and evaluating and testing relevant key controls at the assertion level.
- 6 The work we have completed is as follows.
 - Stage 1: carry out a risk assessment of the general environment within which the Authority's information systems operate.
 - Stage 2: map the systems that provide material figures in the financial statements.
 - Stage 3: document the processes and controls in place within each system and undertake a walkthrough to ensure the system is operating as stated.
 - Stage 4: assess which are the key controls to ensure the integrity of the accounting entries and obtain evidence that they are operating as intended.
- 7 This work identifies the extent to which we can gain assurance from the controls the Authority have put in place, and informs the testing strategy once the financial statements have been presented for audit.

- 8 The main information systems identified were as follows.
- General Ledger.
 - Budget setting and monitoring.
 - Creditors.
 - Debtors.
 - Treasury Management - Loans and Investments.
 - Payroll.
 - Capital Accounting.
 - Council Tax.
 - Housing Benefits.
 - NNDR.
 - Housing Rents.
- 9 As in previous years, we have sought to place reliance on Internal Audit work to make best use of the authority's audit resource. A review of the Internal Audit Service has been carried out and is detailed in Appendix 1.

Main conclusions

- 10 We identified that the authority had sound controls operating over its financial systems which are used to produce the authority's statements.
- 11 We confirm that the Internal Audit Service provided at Sedgefield Borough Council complies with the requirements of Cipfa's Code of Practice for Internal Audit.

Appendix 1- Assessment of Internal Audit

- 1 The Internal Audit Service has been assessed against the ten standards required by Cipfa and are summarised as follows.

Cipfa Standard	Finding
<p>Standard 1 Scope of Internal Audit</p>	<p>The Internal Audit section have clearly agreed and communicated terms of reference. Internal Audit carries out a systematic review and evaluation of the internal control environment. Internal Audit has a clear role in relation to fraud.</p> <p>Standard met</p>
<p>Standard 2 Independence</p>	<p>Internal Audit has sufficient organisational status to be able to undertake its work effectively. Internal Audit is free of operational responsibility that could compromise its independence.</p> <p>Standard met</p>
<p>Standard 3 Audit Committees or equivalent</p>	<p>Internal Audit has access to and makes regular reports to elected members.</p> <p>Standard met</p>
<p>Standard 4 Relationships with management, other auditors and other review bodies</p>	<p>Internal Audit has effective relationships with members, managers, external audit, inspectorates and other agencies.</p> <p>Standard met</p>
<p>Standard 5 Staffing, training and development</p>	<p>Internal Audit is adequately staffed and resourced. Internal Audit staff are suitably trained and developed.</p> <p>Standard met</p>
<p>Standard 6 Audit strategy</p>	<p>Internal Audit has an audit strategy for providing the organisation with an evaluation of, and opinion on, the effectiveness of the control environment. Internal Audit prepares a periodic audit plan that implements the audit strategy.</p> <p>Standard met</p>

Cipfa Standard	Finding
Standard 7 Management of audit assignments	Internal Audit has periodic plans for the undertaking of audit assignments. Internal Audit has established clear standards for documentation and working papers. Internal Audit follows up recommendations to ensure that action is taken. Standard met
Standard 8 Due professional care	Effective mechanisms have been established to ensure that due professional care is maintained. Standard met
Standard 9 Reporting	Internal Audit has clear reporting arrangements that provide management with an opinion on the adequacy of internal controls. Standard met
Standards 10 Quality assurance	Internal Audit work is controlled to ensure that a continuously effective level of performance is maintained. Standard met