

Item 7

AUDIT COMMITTEE

30TH OCTOBER 2006

REPORT OF HEAD OF FINANCIAL SERVICES

Portfolio: STRATEGIC LEADERSHIP

**INTERNAL AUDIT SERVICE –
REPORT FOR HALF YEAR ENDED 30TH SEPTEMBER 2006**

1. SUMMARY

- 1.1 The Internal Audit Plan for 2006/07 year was considered and approved by Overview and Scrutiny Committee 1 on 10th April, 2006. (Minute Ref : OSC(1)44/05). This report deals with the first six months of audit activities, including the progress against the planned work and information on related areas of corporate governance. The scheduled audit days have been achieved in the first six months of the year.

2. RECOMMENDATIONS

- 2.1 It is recommended that the half-yearly progress report is received and that a full year report be considered at the appropriate future meeting of this Committee.
- 2.2 That any relevant audit matters be reported to the quarterly meetings of this Committee.

3. AUDIT ACTIVITY 1ST APRIL TO 30TH SEPTEMBER, 2006

- 3.1 The approved Audit Plan scheduled a total of 915 man-days for the full year, with a half-year performance of 434 days. A summary of the audit work carried out during the first half of the current financial year is shown in the Appendix to this report and shows that a total of 424 days have been achieved.
- 3.2 Highlighted below are some of the major areas of work undertaken together with commentary on the key audit/control issues affecting the Council, which will require the continuing involvement of the Internal Audit staff.

3.3 **Regularity Audit**

The programme of regularity audit for the half-year, which forms the core of the Audit Plan has been substantially completed. Those areas not finalised in the half-year included Newton Aycliffe Leisure Centre (timing switched with Spennymoor), Licensing activity and Central Stores will be progressed shortly.

There were 31 “formal” audit reports issued during the period with 15 confirming that there were satisfactory arrangements in place.

Within the 16 reports issued where recommendations had been made, there were a total of 23 recommendations classified as being of “high importance”, 3 of “medium importance” and 4 that were of “low importance”

All recommendations are made following detailed discussions and with the agreement of the appropriate service managers and have been implemented in accordance with agreed action plans.

Details are shown in the Appendix which provides a brief summary of matters identified as part of the work undertaken by the Internal Audit team. The appendix, together with the following paragraphs, are intended to give a flavour of the wide range of activities covered by the Audit team and the matters which may arise from the work performed. Members will note that the appendix details positive progress being made in the resolution of the matters highlighted.

3.4 **Corporate Governance**

The Councils Key Performance Indicators are reported to Strategic Working Groups throughout the year. 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). The recent Data Quality Assessment has reinforced the need for departmental performance management and continuing internal audit examination.

3.5 **Financial Management Information**

This major system continues to be developed and enhanced to provide high quality and timely budgetary information to all managers.

3.6 **Risk Management**

Internal Audit have a close involvement in the development of the Council's approach to risk management. Efforts to embed risk management into the Council's processes have continued and the Risk Management Group has helped develop a wide range of issues. An electronic risk register was procured last year and some progress made in its use. It is essential that the risks facing all services are identified and action plans developed.

A review of the Council's Risk Management Strategy is being undertaken by the Risk Management Group and data to inform that review is being gathered.

3.7 **Statement of Internal Control (SIC)**

The Accounts and Audit Regulations 2003 introduced the requirement for a formal Statement of Internal Control to be produced by the Council. The SIC for 2005/06 was considered by this Committee on 26th June, 2006. Development of the important features of SIC will continue through 2006/07 to ensure a satisfactory position is maintained in respect of all departments. Outstanding matters from 2005/06 requiring further work related to Housing Property Works value for money, establishment control systems and the new Leisure Management Information and Cash Receipting System. Good progress is being made in all these areas.

3.8 **Energy Management**

The Council's contracting arrangements for energy continue as a priority area for the Council, with the substantial increases in prices requiring an increasingly sophisticated procurement approach. Internal Audit resources are being deployed in order to ensure value for money on energy contracts. An Energy Task Group has been recently established to progress energy efficiency around the Council but there are concerns over the lack of energy monitoring activities by the Council.

4. STAFFING

- 4.1 The Audit Plan for 2006/07 was developed on the basis of 5 posts being available for the first half year, with one vacancy being filled in

September, 2006. A graduate trainee was appointed from 29th August and the Section is now fully staffed.

5. RESOURCE IMPLICATIONS

- 5.1 Whilst this report has no direct implications for resources, the Plan work undertaken could lead to additional costs or savings in relation to service provision.

6. CONSULTATION

- 6.1 The Audit Plan has been prepared and delivered following consultation with Managers around the Council.

7. OTHER MATERIAL CONSIDERATIONS :

7.1 Links to Corporate Objectives/Values

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

7.2 Risk Management

Much of the work undertaken by Internal Audit relates to minimizing the risk to the Council of major system problems and failure of the internal control arrangements. Activity is directed toward 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 co-operation of management across the Council is essential to the maintenance of good quality governance, including risk management.

7.3. Equality and Diversity

No material considerations have been identified.

7.4 Legal and Constitutional

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

7.5 Other Material Considerations

Issues associated with procurement and efficiency are addressed within a wide range of audit activities.

8. LIST OF APPENDICES

8.1 Appendix 1-Summary of Audit Work- April to September 2006

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Wards: Not ward specific.

Key Decision Validation: Not Applicable.

Background Papers:

1. Overview and Scrutiny Committee 1 – 10th April, 2006 - Internal Audit Plan 2006/07
2. Audit Committee – 26th June, 2006
Statement of System of Internal Control and Corporate Governance

Examination by Statutory Officers

	Yes	Not Applicable
1. The report has been examined by the Councils Head of the Paid Service or his representative	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2. The content has been examined by the Councils 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. The report has been approved by Management Team	<input checked="" type="checkbox"/>	<input type="checkbox"/>

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