

AUDIT COMMITTEE

Tuesday, 15 April 2008

5.30 p.m.

Conference Room 2,
Council Offices,
Spennymoor

AGENDA and REPORTS



This document is also available in other languages, large print and audio format upon request

العربية (Arabic)

إذا أردت المعلومات بلغة أخرى أو بطريقة أخرى، نرجو أن تطلب ذلك منا.

বাংলা (Bengali)

যদি আপনি এই ডকুমেন্ট অন্য ভাষায় বা ফরমেটে চান, তাহলে দয়া করে আমাদেরকে বলুন।

(中文 (繁體字)) (Cantonese)

如欲索取以另一語文印製或另一格式製作的資料，請與我們聯絡。

हिन्दी (Hindi)

यदि आपको सूचना किसी अन्य भाषा या अन्य रूप में चाहिये तो कृपया हमसे कहे

polski (Polish)

Jeżeli chcieliby Państwo uzyskać informacje w innym języku lub w innym formacie, prosimy dać nam znać.

ਪੰਜਾਬੀ (Punjabi)

ਜੇ ਇਹ ਜਾਣਕਾਰੀ ਤੁਹਾਨੂੰ ਕਿਸੇ ਹੋਰ ਭਾਸ਼ਾ ਵਿਚ ਜਾਂ ਕਿਸੇ ਹੋਰ ਰੂਪ ਵਿਚ ਚਾਹੀਦੀ, ਤਾਂ ਇਹ ਸਾਥੋਂ ਮੰਗ ਲਓ।

Español (Spanish)

Póngase en contacto con nosotros si desea recibir información en otro idioma o formato.

اردو (Urdu)

اگر آپ کو معلومات کسی دیگر زبان یا دیگر شکل میں درکار ہوں تو برائے مہربانی ہم سے پوچھیے۔

AGENDA

- 1. APOLOGIES**
- 2. DECLARATIONS OF INTEREST**
To notify the Chairman if you have an interest in any of the following items.
- 3. MINUTES**
To confirm as a correct record the Minutes of the meeting held on 28th January 2008. (Pages 1 - 4)
- 4. THE ROLE OF THE AUDIT COMMISSION**
Presentation by the Audit Commission.
- 5. ANNUAL AUDIT AND INSPECTION LETTER 2006/07**
To consider the attached report prepared by the Audit Commission. (Pages 5 - 22)
- 6. WORKING TOGETHER PROCOTOL**
To consider the attached report prepared by Audit Commission. (Pages 23 - 60)
- 7. COMPUTER ROOM INSTALLATION CONTROLS REVIEW**
To consider the attached report prepared by the Audit Commission. (Pages 61 - 70)
- 8. AUDIT PLAN FOR 2008/09**
Report of Director of Resources. (Pages 71 - 84)
- 9. 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
7th April 2008

Councillor D. Chaytor (Chairman)
Councillor J.G. Huntington (Vice Chairman) and

Councillors T. Brimm, C. Nelson, Mrs. C. Potts and B. Stephens
B. Argyle – Independent Member

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Any person wishing to exercise the right of inspection 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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Item 3

SEDGEFIELD BOROUGH COUNCIL

AUDIT COMMITTEE

Conference Room 1,
Council Offices,
Spennymoor

Monday,
28 January 2008

Time: 6.00 p.m.

Present: Councillor D. Chaytor (Chairman) and
Councillors J.G. Huntington, C. Nelson, Mrs. C. Potts and B. Stephens
B. Argyle – Independent Member

Apologies: Councillor T. Brimm

AC.19/07 DECLARATIONS OF INTEREST
Members had no interests to declare.

AC.20/07 MINUTES
The Minutes of the meeting held on 5th November 2007 were confirmed as a correct record and signed by the Chairman.

AC.21/07 RISK MANAGEMENT PROGRESS REPORT 2007
The Committee considered a report of the Director of Resources detailing progress made in developing risk management within the Council during 2007. (For copy see file of Minutes).

It was explained that effective risk management was widely acknowledged as an essential element of quality corporate governance and should be an integral part of an organisation's processes and culture.

Specific reference was made to the CIPFA/SOLACE report entitled, "Corporate Governance in Local Government – A Keystone for Community Governance" in which risk management and internal control were specifically referred to as one of the major dimensions of effective governance.

It was also pointed out that CIPFA/SOLACE had recently revisited the framework to more comprehensively reflect the change in the environment. Risk Management was now specifically identified within the revised framework as follows:

- Core Principle – The authority took informed and transparent decisions, which were subject to effective scrutiny and managing risk.
- Supporting Principle – Ensuring that an effective risk management system was in place.

- Requirement To – Ensure that risk management was embedded into the culture of the authority, with members and managers at all levels recognising that risk management was part of their jobs.

Members' attention was drawn to Section 5 of the report, which detailed the significant areas of risk management activity, which were considered by the Council's Risk Management Group.

With regard to the Statement of Internal Control and Comprehensive Performance Assessment, it was noted that effect from April 2008, the existing requirements were being replaced with the production of a new Statement of Corporate Governance. Guidance on delivering good governance had been produced by CIPFA/SOLACE and the guidance was currently being assessed to identify any areas where further development by the Council was needed.

A question was raised on what progress was being made regarding the harmonisation of risk management policies and financial systems for the new unitary authority. It was reported that high level Programme Boards had been established covering all aspects of the current authorities roles. Workstreams reporting to the boards, would be developing processes and policies for the new Council. An Audit, Risk and Governance Sub-Group had also been established, which had met for the first time on Friday 25th January 2008. The Sub-Group would report back to the Finance Workstream.

Members expressed their satisfaction with the effectiveness of the risk management arrangements around the Council and the initiatives being currently being undertaken by the Risk Management Group. They recognised that further development of the Corporate Risk Management areas of the Governance Framework, together with further progress on strategic risk, were crucial to future assessments of the quality of corporate governance.

The Committee therefore considered that:

- a) Development of the Council's electronic risk register and Generic Risk Profiles should continue in all departments.
- b) The Risk Prioritisation Matrix technique for assessing and addressing risks, as developed by the Risk Management Group, should continue to be the key approach to risk assessment within the Council.
- c) Progress must continue in the development of appropriate risk management responses to the major Strategic Risks facing the Council.

RESOLVED :

1. *That the report be noted.*
2. *That the Committee informs Cabinet of its findings on the effectiveness of the Council's Risk Management arrangements.*

3. *That an annual review of the Risk Management arrangements be undertaken by the Audit Committee.*

AC.22/07 TREASURY MANAGEMENT STRATEGY 2008/09

The Committee considered a report of the Director of Resources detailing the Treasury Management Strategy for 2008/09. (For copy see file of Minutes).

It was explained that the report outlined the strategy to be followed by the Council over the 2008/09 financial year in relation to its Treasury Management activities and took into account guidance on investments issued by the Department of Communities and Local Government (DCLG) and the Prudential Code for Capital Finance in Local Authorities.

The Strategy covered the existing Treasury position, anticipated movement in interest rates, the Council's borrowing and debt strategy, investment strategy as well as Local Treasury Management Indicators.

RESOLVED : That Cabinet be recommended to make the following proposals to Council:

- *To approve the Treasury Management Strategy for 2008/09;*
- *To approve the Investment Strategy for 2008/09;*
- *To adopt the Prudential Indicators and Limits for 2008/09;*
- *To approve the 'Authorised Limit' for borrowing as shown in Appendix B attached to the report.*

AC.23/07 REVIEW OF THE AUDIT CHARTER

The Committee considered a report of the Director of Resources regarding the above. (For copy see file of Minutes).

It was reported that the Council's existing Charter had been recently reviewed to take account of relevant aspects of the Accounts and Audit Regulations 2003, that were updated in 2006, and the updated CIPFA Code of Practice.

Members noted that it was the responsibility of management and not Internal Audit to ensure that appropriate controls were introduced, managed and maintained for all systems. Internal Audit should have no responsibility for the operations that it audits, over and above the provision of recommendations and advice to management regarding systems and controls.

It was also pointed out that the scope for Internal Audit allowed for unrestricted coverage of all the Council's activities and unrestricted access to all records as were deemed necessary in the course of the audit.

It was also noted that the Audit and Resources Manager had direct access to all levels of management, all employees and all elected members, particularly those charged with governance.

RESOLVED : That the Audit Charter attached to the report be approved.

ACCESS TO INFORMATION

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

Annual Audit and Inspection Letter

Sedgefield Borough Council

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

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

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

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

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

Status of our reports

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

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

Reports prepared by appointed auditors are:

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

Copies of this report

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www.audit-commission.gov.uk

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Key messages

- 1 The key messages arising from our inspection work, described in our Direction of Travel report later in this Letter, are as follows.
 - The Council has clearly identified its priorities and is generally making progress towards achieving its ambitions. It has a strong focus on community needs and priorities and revised its aims, objectives and targets in 2007, defining priority targets relating to the whole community under the themes of prosperous, healthy, attractive and strong.
 - A relatively high number of the Council's national performance indicators performed at top level in 2006/07. While improvement in its services slowed in 2006/07 compared to previous years, the Council has sound plans for future improvement. Satisfaction with the Council's services is generally at a high level.
 - In common with councils across Durham, the Council has implemented good regeneration projects. However, the councils are not working together well enough to close the gap between economic prosperity in Durham and the rest of the country.
- 2 The key messages arising from our audit work are as follows.
 - The District Auditor issued unqualified opinions on the 2006/07 accounts and value for money arrangements, and on the Best Value Performance Plan.
 - Our Use of Resources assessment showed that the Council has effective and embedded arrangements for financial management, governance and value for money. During 2006/07 systems of risk management and performance management were embedded at a corporate and service level.
 - However, there was a fall in the council tax collection rate; the rate of collection was the lowest in County Durham and amongst the lowest nationally in 2006/07. The Council has responded to this decrease by implementing a number of measures to improve future performance.
- 3 Other key messages.
 - The Government has decided to take forward the option of local government reorganisation in County Durham. The Council will demise next year and its functions will be transferred to a new unitary council that will cover the whole of County Durham. Early indications are that the Council is making a positive contribution to making a success of the new council but this early impetus needs to be maintained over the coming months.

Action needed by the Council

- 4 The Council and the new County Durham Council should work within the framework provided by the County Durham Economic Partnership to progress our recommendations in the county-wide inspection of Regeneration. In summary, these were to take steps to strengthen the coherence of regeneration activity and collaboration amongst stakeholders by:
 - starting and maintaining a public debate on the future of Durham's economy;
 - aligning regeneration strategies and strengthen collaboration amongst partners to match the pace of external change, without regard to local government boundaries;
 - considering with partners how the importance of skills and aspirations can be embedded in the culture of County Durham;
 - ensuring that housing strategies align with economic strategies and opportunities and with transport strategy;
 - strengthening leadership on regeneration activity;
 - providing independent capacity to develop and deliver strategy; and
 - reviewing how resources are used to lever in private funding in order to maximise their impact.
- 5 The Council should take action to address issues arising from our Direction of Travel report:
 - the Council should continue to work with partners in the LSP to improve local quality of life, in particular focusing on efforts to reduce the gap between local and national performance in health inequalities and employment; and
 - the Council should ensure that improvement plans for sickness absence, planning are closely monitored and take further action taken if performance does not improve.
- 6 In order to provide a smooth transition to the new unitary council for County Durham the Council should continue to:
 - prioritise making a positive contribution to transitional working designed to establish the new council;
 - set aside or secure sufficient resources to make the above contribution; and
 - ensure that attention is given to maintaining key public services in the period up to demise.

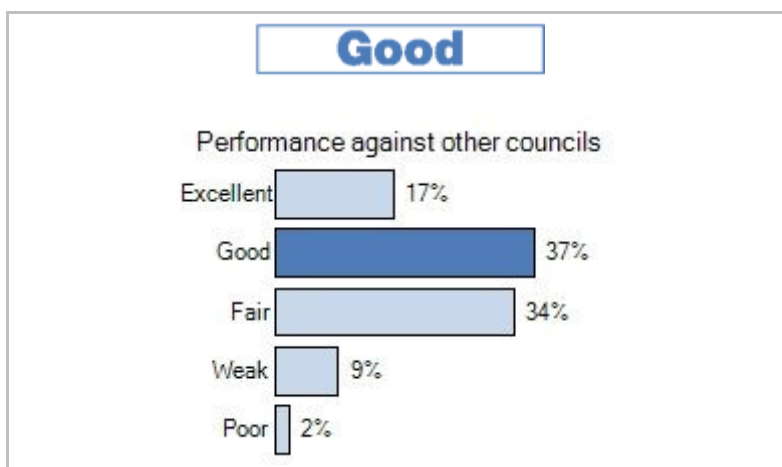
Purpose, responsibilities and scope

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

How is Sedgefield Borough Council performing?

Sedgefield Borough Council was assessed as 'good' in the Comprehensive Performance Assessment carried out in 2003. These assessments have been completed in all district councils and we are now updating these assessments, through an updated corporate assessment, in councils where there is evidence of change. The following chart is the latest position across all district councils.

Figure 1 Overall performance of district councils in CPA



Source: Audit Commission

The improvement since last year - our Direction of Travel report

- 13 The Council has clearly identified its priorities and is generally making progress towards achieving its ambitions. It has a strong focus on community needs and priorities and revised its aims, objectives and targets in 2007, defining priority targets relating to the whole community under the themes of prosperous, healthy, attractive and strong.
- 14 The Direction of Travel basket of Audit Commission performance indicators (PIs) shows that while many of the Council's services perform well and overall they improved in 2006/07, they did not improve as much as the average for district councils:
 - 52 per cent of the Council's PIs improved in the three years from 2003/04 to 2006/07, close to but lower than the average for district councils of 55 per cent;
 - the Council's rate of improvement in 2006/07 was slower than the average for district councils: 54 per cent of the Council's PIs improved in 2006/07 compared to the district council average of 58 per cent;

8 Annual Audit and Inspection Letter | How is Sedgefield Borough Council performing?

- however, the Council had more PIs in the best quartile at 37 per cent than the average for district councils, which was 32 per cent.
- 15 In two service areas, public satisfaction improved substantially in 2006 (the latest available national data). These were satisfaction with cleanliness of public space and satisfaction with sports and leisure facilities.
- 16 The Council is making progress in its priority areas, and in doing so is contributing to improvements in community outcomes.
- **Healthy borough:** the Council is working with its partners to reduce health inequalities but with mixed results. Although the gap in life expectancy between national levels and those in Sedgefield is narrowing for men it has widened for women. However the Local Strategic Partnership (LSP) has analysed performance and identified the key improvements necessary focussing on healthy lifestyles, teenage conceptions, mental health and long term conditions. The Council has worked with partners including the County Council to help more adults with physical disabilities to live at home.
 - **Prosperous Borough:** The Council continued to realign resources to improve employability and enterprise in disadvantaged areas. There have been improvements in the employment and self employment rates, although the gap between the national and borough averages is widening.
 - **Attractive Borough:** the Council is in the best quartile for resident satisfaction with waste collection and recycling facilities and met its targets for recycling levels and reductions in the amount of waste in 2006/07.
 - **Strong communities:** the Council reduced the number of homelessness applications including those that are repeat applications or from 16-7 year olds. Domestic burglaries, violent crime vehicle crimes and racial incidents also reduced in 2006/07.
- 17 These themes are brought together in the efforts of the Council and its partners to achieve significant improvements in local areas through a comprehensive package of physical and social regeneration.
- 18 The national user satisfaction survey in 2006 showed that overall public satisfaction with the Council remained among the best in the country at 59 per cent. Tenant satisfaction (93 per cent) and tenant satisfaction with ability to participate (74 per cent), satisfaction with waste collection (89 per cent) and satisfaction with sports and leisure facilities (69 per cent) were also at a high level compared to other councils. Satisfaction with parks and open spaces (74 per cent) and satisfaction with recycling (75 per cent) were above average. Local people were generally less satisfied with the provision of museums and galleries (22 per cent satisfied), theatres and concert halls (16 per cent), but users of Locomotion are very satisfied. Almost all queries are now resolved at first point of contact with the Council which has contributed to the reduction in the number of complaints.

- 19 Services have improved in areas considered key by local communities. In particular, changes have been made to improve performance on homelessness and housing advice. Although there are still some underperforming services, for example planning, improvement plans have been put in place to ensure that progress is made. The Council includes wider community objectives in its corporate objectives, for example working with partners to reduce health inequalities and working with partners to reduce antisocial behaviour. The performance of the LSP improved significantly in 2007.
- 20 The neighbourhood wardens service is an example of a good service providing improvements in services and quality of life for citizens. It has been awarded the Warden Quality Standard with distinction and received the North East Regional Wardens Award for Excellence in Community Safety. Phase 2 of the Council's review of this service, in 2007/08, will debate improvement options with stakeholders with the aim of further improving service quality.
- 21 The majority of the Council's corporate objectives relate to tackling the inequalities present in the Borough and there are clear examples of policy and activity geared towards addressing these issues, for example community alarms, concessionary travel, concessionary pricing in leisure services, housing advice and homelessness prevention, an employability programme, youth and adult training, housing renewal programmes and the neighbourhood wardens service. All services address inequalities of provision as part of their service planning driven by a corporate impact assessment programme.
- 22 The Council has taken steps to strengthen community engagement and ensure that local priorities are addressed. Processes include a citizens' panel and the annual council tax consultation. Working closely with local communities to identify key local issues and using its analysis of local data, the Council has developed a masterplan to regenerate three local areas. Plans are well advanced and are supported by the use of capital receipts for regeneration schemes.
- 23 The Community Empowerment Network has been replaced by area forums run by locality based partnerships. The Council has devolved £1million funding to these forums and holds them to account to deliver the objectives in the Community Strategy in order to improve community-based services to tackle the priorities of health, employment and community learning. The numbers of complaints received by the council has reduced substantially by 50 per cent over the last year, which is an indication that service quality is improving. Officers are encouraged and empowered to resolve problems on first contact.
- 24 Value for money is good. The Council has achieved double the savings required to meet its Gershon efficiency targets for the last few years. These efficiencies are from departments and services across the Council. It gives priority to achieving value for money by appointing member and officer champions. Spending is in line with performance levels and there are no areas of high spending associated with low performance.

- 25 The Council has good plans for improvement. It has made significant progress in linking its priorities to local needs and aspirations, reassessing its key priorities and establishing new targets for them. The Council's Performance Management Framework is linked into that of the LSP. For the first time in 2007, the LSP and corporate annual performance reviews were integrated. The Council's transformational change programme 'Making Change Happen' led to the corporate values being revised to make them meaningful to staff.
- 26 The Council is using local data to ensure that service performance and access issues are highlighted. The LSP has sponsored a web-based Area Framework containing intelligence about each area including such information as health data, performance and user views. It will be used for planning and performance management and will be accessible by officers, members and the public. An action plan is being produced to address anomalies in provision or performance highlighted by the framework.
- 27 The Council has demonstrated that it is able to take action to improve poorly performing services, for example, in the homelessness service, where there has been significant improvement. However, sickness absence remains a weakness in the Council's capacity. Absence rates are poor and were the worst in the county for 2006/07 at 13.8 days compared to a median for Durham districts of 9.32. Improvement plans for sickness absence levels are yet to come to fruition. Over the first six months of 2007/08, the rate reduced to 13.2 days but it has risen to 13.8 over the last eight months.
- 28 Target setting has been improved this year through holding development workshops where they managers were challenged to justify targets and link outcomes to investment. This should help to embed the improvements to target setting raised in last year's annual audit and inspection letter.
- 29 The Council has robust plans for improving, although this has been affected by LGR. The Council has produced a transition plan outlining its aims and arrangements for the period until the new unitary council takes over. Existing policy commitments and priorities are backed up by thematic delivery plans, service plans and improvement plans. The Council's corporate governance arrangements are robust and provide a sound basis for continued improvement.

Service inspections

Regeneration

- 30 During 2007 we carried out an inspection of Regeneration, covering all eight local councils in County Durham. The report was published in August 2007. The key findings relating to the whole county were as follows.
- Councils are providing good regeneration services individually. However, in spite of much external funding and considerable resource contributions of their own, they are not collectively closing the gap in prosperity between Durham and the rest of the country. There is also little evidence that the gaps between the most disadvantaged and rest of region are closing.

- Strategic leadership on the economy in Durham has been weak. When councils and partners work together then making good progress and identify and develop some real opportunities, but there are not enough examples of this. Councils tend to work within their own boundaries rather than across geographical areas (this is in part driven by external funding arrangements).
- While there seems a general acceptance that part of the solution is to work at city region scale to widen and deepen markets, County Durham does not seem clear on its relationship to the two City Regions of Tyne and Wear and Tees Valley.
- Identification of local needs is weak: there is a lack of engagement with key stakeholders and little sharing of information about local needs. This includes insufficient engagement with, and understanding of, businesses and their needs eg for skills development. Intelligence and data are not shared between councils.

The audit of the accounts and value for money

- 31 Your appointed auditor has reported separately to the Council on the issues arising from our 2006/07 audit and has issued:
- an audit report, providing an unqualified opinion on the accounts of Sedgefield Borough Council;
 - a conclusion on your VfM arrangements to say that these arrangements are adequate; and
 - a report on the Best Value Performance Plan confirming that the Plan has been audited and published in accordance with the statutory requirements.

Accounts

- 32 The preparation of the 2006/07 annual accounts was extremely challenging because of significant changes to the professional guidance issued by CIPFA and the loss of key staff during the closure process.
- 33 In these circumstances, the Council did well to meet the statutory deadline for the approval of accounts and provide accounts that were accurate in all material respects. We reported to the Audit Committee some significant changes to the balance sheet regarding capital transactions, but these did not impact on the overall level of balances.
- 34 The Council under-spent slightly against its budget and reserves are maintained at a prudent level. There was a fall in the council tax collection rate however, from 95.4 per cent in 2005/06 to 95.0 per cent in 2006/07, making it the lowest collection rate in County Durham and amongst the lowest nationally. The Council has responded to this decrease by implementing a number of measures to improve future performance, notably the provision of additional staff resources to allow the Council to take a more pro-active approach to recovery.

Use of Resources

- 35 The Use of Resources score is derived from the assessments made by the auditor in the following areas.
- Financial reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
 - Financial management (including how the financial management is integrated with strategy to support council priorities).
 - Financial standing (including the strength of the Council's financial position).

- Internal control (including how effectively the Council maintains proper stewardship and control of its finances).
- Value for money (including an assessment of how well the Council balances the costs and quality of its services).

36 We have assessed the Council's arrangements for use of resources in these five areas as follows.

Table 1

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

(Note: 1 = lowest, 4 = highest)

The key issues arising from the audit

- 37** The Council's overall use of resources judgement is at level 3 which means 'consistently above minimum requirements - performing well'. This is the same overall assessment as last year and reflects our view that the Council has effective and embedded arrangements to deliver strong performance across all areas subject to the use of resources assessment.
- 38** During 2006/07 systems of risk management and performance management were embedded at a corporate and service level and this should help the Council sustain an effective use of resources through the challenges created by local government reorganisation.
- 39** The Council is particularly strong at financial management and during the year we conducted a survey of budget holders that was very positive. Unusually, budget holders receive quarterly accrued management reports illustrating the impact of financial performance on balance sheet items.
- 40** We acknowledge that opportunities for further improvement may be limited in the context of the on-going reorganisation in the Durham area. Given the upcoming period of reorganisation, focus should be on ensuring that minimum requirements continue to be met.

- 41 Additional areas where the Council will need to focus attention on for the 2008 assessment include the following new 'level 2' minimum requirements:
- published information is available to the public in a timely way and in accessible formats in compliance with duties under the equalities legislation;
 - the impact of strategies is assessed for their impact to comply with duties under the equalities legislation in relation to race, gender and disabilities; and
 - preparation for the role of the standards committee in local investigations and determination.

Data quality

- 42 Arrangements for ensuring data quality overall are effective and we have seen that further improvements have been made in the last year. Sound arrangements are in place for governance and leadership, policies, systems and processes, people and skills, and data use and reporting. Furthermore our spot checks of specific performance indicators found that they were all fairly stated.

National fraud initiative

- 43 The National Fraud Initiative (NFI) is a computerised data matching exercise designed to identify overpayments to suppliers and benefit claimants and to detect fraud perpetrated on public bodies. The referrals from the current exercise were released to participating bodies in 2007, and the data matches are being investigated and followed up by the Council.

Local risk work

- 44 During the year we undertake work in specific areas of the Council's activities. This is done to inform our overall use of resources and value for money assessments; and in response to audit risks identified locally or nationally.

Computer installation controls

- 45 As part of our annual risk assessment process we identified that arising from the recent upgrading of the computer room infrastructure, it was appropriate to review computer room installation controls at Sedgefield. We found that the main physical access and environmental controls are adequate and operating in a satisfactory manner, but made some recommendations for further improvement. The Council has evaluated these recommendations and taken action to improve arrangements where appropriate.
- 46 A key component of the Audit Commission's national strategy for improving the impact of local audit and performance work, and delivering strategic regulation, is to carry out integrated reviews which cut across a number of public bodies and help improve the quality of life for local people. Work has been included in audit and inspection plans across the North East for 2006/07 on two key cross-cutting themes, health inequalities and economic development.

Health inequalities

- 47 Partnership working is helping to improve the North East's health outcomes but more needs to be done to close the gap between the North East and the rest of England. Life expectancy is lower, rates for sickness and disability are twice the national average, and smoking mortality rates are among the highest in England. There is also a high prevalence of obesity, increasing sexual health infection rates and serious alcohol and substance misuse issues.
- 48 Tackling health inequalities is a high priority for the Government, which has been increasingly encouraging health trusts to work in partnership with local public bodies and the voluntary sector to improve health and reduce inequalities through a number of initiatives, targets and legislation. The factors causing health inequalities are complex and can best be addressed through agencies working together.
- 49 The Audit Commission, Deloitte and PricewaterhouseCoopers have reviewed how organisations across the North East are working together to address health inequalities, culminating in a workshop in October 2007 for 200 representatives from the NHS, local government and the many voluntary sector agencies involved in tackling health inequalities, where we identified seven key challenges.
- Challenge 1: Develop arrangements to evaluate projects and ensure continued funding of those that deliver tangible outcomes, and to embed this learning in project planning and performance management systems.
 - Challenge 2: Gather intelligence on where gaps in services exist and a profile of those accessing services. Target services at those areas and individuals where there is unmet need and develop strategies to target hard to reach groups.
 - Challenge 3: Ensure local area agreements contain a breadth of targets to reduce health inequalities, across all sectors and ensure health and wellbeing strategies are translated into local delivery plans that contain sufficient detail and local targets to monitor progress.
 - Challenge 4: Spread awareness of priorities and services on offer and provide networking opportunities and information sharing systems to improve the links between service planners and service providers. Cascade messages and targets to front line workers such as teachers, health professionals and social workers.
 - Challenge 5: Use the Regional Health and Wellbeing Strategy to provide direction for the North East and link national, regional and local policies. Develop networking opportunities and support to share good practice to achieve the aim of transforming the North East into the healthiest region in the country within a generation.

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- Challenge 6: Give community and voluntary sector organisations increased certainty over funding with agreed delivery targets and simplify commissioning arrangements to make it easier for them to bid for the provision of services.
- Challenge 7: Systematically seek community views to influence how and where services are provided.

50 A report summarising the work to date was distributed widely to inform future development and improvement. We will be building on this work in the coming year, focussing in on specific areas, identifying good practice and helping to identify and overcome barriers to improving health outcomes in the North East.

Looking ahead

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

Closing remarks

- 53 This letter has been discussed and agreed with Sedgefield Borough Council. A copy of the letter will be presented to the Audit Committee and subsequently to the Cabinet meeting on 24 April 2008. Copies will need to be provided to all Council members.
- 54 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

Table 2 Reports issued

Report	Date of issue
Audit and inspection plan	March 2006
Annual Governance Report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Final accounts memorandum	September 2007
BVPP report	November 2007
Computer room installation controls review	November 2007
Regeneration inspection (county-wide report)	August 2007
Direction of Travel report (within Annual Audit and Inspection Letter)	March 2008
Annual Audit and Inspection Letter	March 2008

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

Availability of this letter

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

Sarah Diggle
Relationship Manager

Steve Nicklin
District Auditor

March 2008

Date January 2008

Last saved: 04/04/2008 11:12:00

Working Together

Sedgefield Borough Council

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local and national services for the public. Our remit covers more than 15,000 bodies which between them spend nearly £125 billion of public money every year. Our work covers local government, housing, health, criminal justice and fire and rescue services.

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

Document Control	
Author	Ross Woodley
Filename	Working Together - sedgefield 2008 version 4 4 08

Status of our audit reports to the Council

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

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Introduction

- 1 This document sets out the way the Council and the Audit Commission will work together in the delivery of our work programme up until local government reorganisation (LGR) in April 2009. It will help to optimise the benefits of our work and ensure that the impact of the additional work created by LGR on audit and inspection fees for 2008/2009 is minimised. It reflects the current Code of Audit Practice (the Code) and the inspection work which we will carry out and formalises arrangements that are already in place.
- 2 The aims are to:
 - clarify the respective roles of the Council and the Audit Commission auditors and inspectors;
 - ensure that arrangements for addressing risks associated with LGR are understood and agreed;
 - enhance arrangements for co-operation in planning, conducting and reporting the audit and inspection work;
 - promote a more effective working relationship within the bounds of respective roles;
 - maximise the benefit from available audit resources; and
 - improve liaison with statutory officers through effective communication on matters pertinent to the audit opinion
- 3 Reflecting developments in public service and a shared awareness of the issues facing local people, we are increasingly taking a 'cross-cutting' approach in our work, recognising that the issues are complex and are often addressed by organisations working together. In 2007/08 our 'cross-cutting' focus in County Durham is on reducing Sickness absence and improving user's access to services.
- 4 In 2002, we extended the concept of 'the managed audit' to all aspects of local audit work. The managed audit allows audited bodies to manage and control their audit costs. In well-controlled and efficient audited bodies, auditors achieve efficiency savings by working alongside management to streamline the audit process, without compromising the independence of their judgements. This document builds on that framework to also include our work to assess direction of travel. Detailed protocols for different elements of our work are attached as appendices and replace any existing protocols.
- 5 We believe we already have a good working relationship with the Council, which is evidenced by the variety of joint working arrangements which continue to be developed. Working well together will make best use of the resources of our respective organisations. We will continue to play our part in this process and to promote new ideas for further enhancing these joint working relationships.

Liaison arrangements

This section sets out our overall liaison arrangements with the Council.

The role of the Commission's Comprehensive Area Assessment Lead

- 6 In order to ensure that local authorities receive a tailored, seamless service, integrated with the work of other inspectorates, the Commission has identified a relationship manager for each local authority. In Sedgefield's case this role has been performed by Sarah Diggle. The Commission is restructuring in order to prepare for comprehensive area assessment and in April 2008 a new post of Comprehensive Area Assessment Lead (CAAL) will be created. The CAAL will take over the relationship manager role as the Commission's primary point of contact with the authority and the interface at the local level between the Commission and the other inspectorates, Government Offices and other key stakeholders. In addition, the CAAL will be responsible for ensuring a smooth transition from an inspection system based on individual authorities (CPA) to one based on the whole County (CAA). The appointment of a CAAL is separate from the appointment of the auditor.

The CAAL for your Council is Marion Talbot.

The role of the Commission's appointed auditor

- 7 The overall framework within which auditors operate is set by the Commission through the Code of Audit Practice. Under the Code, auditors have two specific responsibilities in relation to the accounts and the audited body's arrangements for the use of resources, as detailed below:
- the audit of financial statements and annual governance statement; and
 - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 8 The Commission has a policy of rotating appointed auditors every few years to safeguard their independence. Steve Nicklin (District Auditor) has been your appointed auditor for four years and is due to be rotated, but will continue in this role for the time being.

The appointed auditor for your Council will be notified shortly.

- 9 The Commission's work with your Council is in practice delivered by a team of staff.

Table 1 The Audit Commission team

The following are the key Audit Commission contacts for the audit and inspection programme:

Name	Title	Contact details	Primary Role
Paul Heppell	Audit Manager	p-heppell@audit-commission.gov.uk	To act as day to day liaison with the Council and act for the appointed auditor in discharging his duties under the Code of Audit Practice.
Ross Woodley	Principal Auditor	r-woodley@audit-commission.gov.uk	To supervise a team of auditors and contractors in discharging duties under the Code of Audit Practice and deputise for the Audit Manager.
Samantha Eason	Performance Manager	s-eason@audit-commission.gov.uk	To lead on the delivery of inspections, value for money assessments and direction of travel assessments.

- 10 The key contacts at the Council are set out in the following table and the agreed frequency of liaison is set out in appendix 1.

Table 2 Key contacts

The following officers have been identified as the key audit and inspection contacts for the Council

Name	Title	Contact details
Brian Allen	Chief Executive (Head of Paid Service)	ballen@sedgefield.gov.uk
Alan Smith	Director of Resources (Section 151 Officer)	alansmith@sedgefield.gov.uk
Dennis Hall	Solicitor to the Council (Monitoring Officer)	dahall@sedgefield.gov.uk
Andy Palmer	Assistant Chief Executive	apalmer@sedgefield.gov.uk
Alan Boddy	Head of Organisational Development	aboddy@sedgefield.gov.uk

Name	Title	Contact details
Az Rafiq	Audit and Resources Manager	arafiq@sedgefield.gov.uk
John Hawes	Accountancy Services Manager	jhawes@sedgefield.gov.uk
Paul Stephens	Corporate Performance Manager	pstephens@sedgefield.gov.uk

- 11 We will continue to liaise closely with these key officers both in planning and carrying out our audit and inspection work. We will always discuss the timing of our work with relevant officers and will notify the responsible officer of the start date of any audit or inspection work with appropriate notice. Where feasible we will try to time the work to suit the working arrangements of those officers involved. We will be clear about the documentation which we will require access to during the course of the work.
- 12 In preparation for local government reorganisation (LGR) the Council has developed a transition plan, a business as usual protocol and a Programme Board. Risks associated with LGR may also be addressed through joint arrangements between the district councils. We will co-ordinate our response to LGR through ensuring that one audit manager attends appropriate meetings, assesses joint arrangements and provides feedback to the other audit managers in County Durham. We have assessed LGR as the greatest audit risk at all the local authorities in the county and included work to address this in the 2008/2009 audit and inspection plans. This work will be co-ordinated county-wide to ensure that emerging risks and good practice are communicated appropriately.
- 13 The main risks that we will be addressing are:
 - the impact of increased turnover and key vacancies on internal control;
 - the security of assets;
 - access to records and officers of the demising council during and after the transition;
 - the use of reserves and balances; and
 - commitments to long-term projects and capital schemes.
- 14 We will take into account the demise of the Council in March 2009 in planning our audit and inspection work and this will involve a lighter touch to scored assessments such as use of resources and direction of travel in view of their reduced relevance to the public. This will help us resource the increased risk-based work for the opinion and VFM Conclusion, described in paragraph 13.

Risk based planning

This section sets out the arrangements in relation to risk based planning.

- 15 The Council routinely identifies and evaluates its operational and financial risks, and develops and implements arrangements to manage them, including systems of internal control. In addition it is also required to have effective arrangements for securing value for money in its use of resources.
- 16 At the core of the Commission's work locally is a risk based approach to planning that reflects our overall assessment of the relevant business risks that apply at the Council. This approach ensures that we meet the requirements of strategic regulation and the Code whilst still directing our resources to address the key risks identified. As part of the planning process we assess the financial and business risks facing the council and the arrangements in place to manage those risks. We then tailor our work to address residual audit risks. The table below sets out our respective responsibilities in this area.

Table 3 Risk based planning

Our audit and inspection plan is developed to address areas of significant residual audit risk

The Council	The Audit Commission
Identify and address operational and financial risks.	Identify the significant business risks which are relevant to our audit work.
Develop and implement proper arrangements to manage risks.	Assess the arrangements in place to manage those risks and therefore the residual audit risk.
	Prepare a tailored Audit and Inspection Plan that directs audit effort to areas of significant residual audit risk.

- 17 It is expected that internal audit (IA), will remain a key part of the Council's control framework. We therefore expect that IA coverage will continue to be based on a detailed risk assessment, with resources focused on addressing the higher risk areas. This is relevant to our work on auditing the financial statements (page 9) and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (page 11).

Auditing the financial statements

This section sets out the arrangements with the Council in relation to our audit of the financial statements.

- 18 The financial statements, which comprise the published accounts of the Council, are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. It is the responsibility of the Council to:
- put in place systems of internal control to ensure the regularity and lawfulness of transactions;
 - maintain proper accounting records;
 - prepare financial statements that present fairly its financial position and its expenditure and income; and
 - prepare and publish an Annual Governance Statement with its financial statements.
- 19 As your external auditors we are required to audit the financial statements and to give our opinion. This includes consideration of whether they present fairly the Council's financial position and expenditure and income and whether they comply with relevant legislation and accounting standards. We are also required to review whether an Annual Governance Statement has been presented in accordance with requirements and to report if it does not or if it is misleading or inconsistent with other information we are aware of.
- 20 In carrying out these duties we comply with the **International Standards on Auditing (ISAs)**, which are mandatory from 2005/06. In summary, these require us, as external auditors, to:
- gain an understanding of the information systems that are relevant to producing material figures in the accounts;
 - gain an understanding of the way transactions in these systems are initiated, recorded, processed and reported;
 - carry out interim opinion audit planning - identifying risks of material mis-statement (inherent risks in the systems, or specific risks in the Auditor Briefing) - and planning tests of controls that are designed to prevent material mis-statements;
 - carry out tests of controls where those controls are key to ensuring there are no material mis-statements in the assertions in the financial statements;
 - reassess the risks at the time the draft financial statements are produced; and
 - plan and carry out tests of control or substantive tests of detail against the remaining risks for each of the assertions for material entries in the accounts.
- 21 Understanding information systems and testing key controls are clearly key areas where IA have a great deal of experience and provide significant assurance to the Council. However, the new standards require us to understand and document all

material systems. The detailed arrangements for how we will work with IA are set out in Appendix 4. It is also important that we understand the operation of computer systems so the use of appropriate computer audit techniques will be a key element of the review process.

- 22 We will continue to agree a timetable with the Council for the closure of accounts, including inspection by the public and the availability of working papers. A summary of the agreed arrangements is provided in table 4.

Table 4 Auditing the financial statements

We have agreed arrangements with the Council for auditing the financial statements

The Council	Key officers	Key documents	The Audit Commission
Establish and maintain proper arrangements for: <ul style="list-style-type: none"> • ensuring the regularity and lawfulness of transactions; • maintaining proper accounting records; • preparing financial statements; • systems of internal control. 	Director of Resources Solicitor to the Council	Financial statements and supporting working papers Financial procedure rules	Interim audit work to support our opinion on the financial statements in line with ISAs.
	Accountancy Services Manager Audit and Resources Manager	Closedown timetable and procedures Key systems procedure notes Letter of representation Annual Governance Statement IA plans, work and reports	Detailed testing on the draft financial statements in line with ISAs, with specific attention given to identified risk areas.

- 23 We supplied a copy of our minimum working paper requirements checklist in March 2008 to the Accountancy Services Manager. The Accountancy Services Manager will be responsible for ensuring that these requirements are met and the checklist is fully cross-referenced to properly numbered files of supporting working papers. We will provide additional checklists from time to time to help the Council demonstrate how complex accounting issues have been addressed during closure. In order to further assist the audit trail a copy of the statement of accounts will be annotated with references showing where the supporting working papers for each figure can be located.

Use of resources

This section sets out the arrangements with the Council in relation to the use of resources.

- 24 It is the Council’s responsibility to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such arrangements form a key part of the system of internal control.
- 25 We have a responsibility to satisfy ourselves that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In meeting this responsibility we will review and, where appropriate, examine evidence that is relevant to the Council's performance management and financial management arrangements and report on these arrangements. Our opinion on use of resources is known as the VFM Conclusion and is incorporated within the financial statements.
- 26 The VFM Conclusion is a pass / fail judgement based on 12 criteria but we are also required to give an annual scored (1-4) judgement on use of resources. We have discussed how mutual benefit from this process can be maximised with the Director of Resources and have asked for evidence to be restricted to:
 - new criteria not subject to a previous UOR assessment;
 - significant changes to arrangements from the previous year; and
 - notable practice, which the Council wishes us to take into account
- 27 A summary of the arrangements is provided in table five.

Table 5 Use of resources

Arrangements for discharging our responsibilities in relation to its use of resources

The Council	Key officers	Key documents	The Audit Commission
Establish and maintain robust arrangements for producing performance information. (Note: CLG are issuing saving powers to require a BVPP to be published in June 2008 including outturn figures for all 2007/08 BVPIs.)	Corporate Performance Manager	Corporate Plan BVPI working papers	We will carry out a review of the council's arrangements to ensure the quality of its reported performance information including detailed testing of PIs specified by the AC.

The Council	Key officers	Key documents	The Audit Commission
Establish proper arrangements to secure economy, efficiency and effectiveness in its use of resources and ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them.	<p>Chief Executive</p> <p>Assistant chief Executive</p> <p>Director of Resources</p>	All key corporate documents	Work to support our annual use of resources judgement.

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Our inspection programme

- 28 We carry out inspections under the Local Government Act 1999 (section 10, to inspect compliance with local council's duty of continuous improvement) and the Local Government Act 2003 (section 99, to report on and categorise the performance of local councils). Our inspections aim to encourage improvement of local services. They are planned and carried out with the aim of maximising the impact of our activities while minimising the burden on the organisations we inspect.
- 29 Our inspection programme is derived from:
- the Comprehensive Performance Assessment (CPA) framework, including the annual Direction of Travel assessment and corporate assessments; and
 - service inspections carried out in line with the Council's improvement priorities.
- 30 Our inspection programme for the year is set out in the annual Audit and Inspection Plan, which we discuss and agree with the Council. We will discuss the detail of the scope and methodology for an inspection, including Direction of Travel, with the Council in good time before carrying it out.
- 31 Corporate assessments are carried out to a national programme. The Council will be notified of arrangements for the corporate assessment by the Audit Commission's national team.
- 32 In planning and carrying out our inspection work, we liaise with other organisations, including Communities and Local Government (CLG), Government Office and other inspectorates. We aim to ensure that the regulatory activities of the different organisations are co-ordinated in order to minimise the impact on the inspected organisation. Our Direction of Travel assessments reflect the views of other regulators, as appropriate.
- 33 We inspect supporting people services directly for CLG, with a focus on the use of grant, value for money and equity in approach to service users.
- 34 The principles and practice of inspection are set out in the Audit Commission's Code of Inspection Practice, which is published on our website (www.audit-commission.gov.uk). Inspection teams use Key Lines of Enquiry (KLOE) to inform the inspection scope and judgements. Details of the KLOE used for our inspections are also on our website. Self-assessment by the Council is a key starting point for our inspection work. Our inspection reports are public reports and are published on our website.
- 35 If the Council disagrees with our inspection judgements, it may apply to the Audit Commission for a Review. If it wishes to request a Review, the Council must do so within ten working days of receiving the final report on the inspection. Details of the Review procedure are on the Audit Commission's website.

The roles of the Audit Commission and the Council in inspections

- 36 The Audit Commission and the organisations it inspects have different but complementary roles in inspections.
- 37 For all inspections, we aim to:
- notify the inspected organisation of the timing of the inspection, the names and contact details of the inspection team and dates for fieldwork in good time;
 - provide adequate notice of the deadline for receipt of the organisation's self-assessment;
 - provide details in good time of documents or other information required and fieldwork activities to be arranged, and aim to avoid duplication by requesting only those documents or other information to which the Commission does not already have access;
 - provide the inspected organisation with summarised, anonymised results of any formal consultation with stakeholders carried out by the Audit Commission as part of an inspection;
 - brief the inspected organisation on key issues and emerging findings from the preparation phase and keep the inspected body informed of key issues and emerging findings during the fieldwork phase (as a minimum through one feedback session at the end of the fieldwork), and in doing so maintain a 'no surprises' approach;
 - clarify with the inspected organisation the dates for delivery of the draft inspection report and the deadline for comments on the report;
 - notify the inspected organisation in advance of the date of publication of the report;
 - provide the pre-publication report at least ten working days before the due publication date;
 - publish inspection reports including on the Commission's website;
 - issue press releases at the Commission's discretion;
 - provide a copy of any press release to the inspected organisation at least one working day in advance of publication;
 - conduct any review of the inspection without unreasonable delay, and in doing so keep the inspected organisation informed of progress and the expected completion date for the review; and
 - seek feedback from inspected organisations about the inspection and the inspection team.
- 38 For service inspections, we aim in addition to:

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- discuss and agree inspection programmes with inspected organisations (the Commission has powers to inspect without agreement, but will seek the agreement of the inspected organisation whenever possible);
- prepare a clear specification and scope for an inspection, for the benefit of the inspected organisation and of the inspection team, to be agreed where possible; and
- agree the dates for fieldwork with the inspected organisation.

39 For all inspections, we expect the Council to:

- respond to requests from the Audit Commission for documentation and other information without delay and within the deadlines given by the Commission¹;
- submit the self-assessment by the deadline set by the Audit Commission;
- assign an officer to liaise with the inspection team for the purposes of the inspection arrangements;
- make the necessary arrangements for an inspection, particularly for the fieldwork phase, including provision of office accommodation to Audit Commission requirements, arrangement of interviews and focus groups, and facilitation of checks on user experiences;
- respond to the draft inspection report by the deadlines set by the Commission;
- respect the Audit Commission's embargo on publicity before publication, and not issue public statements (including press releases) on the inspection report until the embargo is lifted;
- circulate the final inspection report to stakeholders within and outside the organisation;
- act on the Commission's recommendations for improvement;
- raise any issues of concern with the inspection team, the Commission's relationship manager or the lead housing inspector as soon as they arise; and
- operate a 'no surprises' approach themselves.

40 In addition, for service inspections we expect the inspected organisation to provide information to the inspection team to enable the team to estimate the cost implications of recommendations, and discuss these costs and related matters with the inspection team.

¹ The Audit Commission has statutory powers to require documents and other information to be provided by the inspected organisation. Information supplied to the Audit Commission is subject to the Freedom of Information Act 2000; the Commission will normally consult the inspected organisation before disclosing information supplied as part of an inspection.

Reporting the results of our work

This section sets out our reporting arrangements with the Council.

- 41 The results of our work will be reported in a range of outputs. In particular, the following will be issued at key points in the programme:
- Audit and Inspection Plan;
 - oral and/or written reports or memoranda to officers and, where appropriate, Members, on the results of, or matters arising from, specific aspects of our work;
 - a report to those charged with governance summarising our conclusions;
 - an audit report including our opinion on the financial statements and a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources;
 - a certificate that the audit of the accounts has been completed in accordance with statutory requirements;
 - published inspection reports;
 - an Annual Audit and Inspection Letter; and
 - Direction of Travel statement and CPA Scorecard.
- 42 The following table sets out the agreed arrangements for reporting the key outputs from the audit. Copies of all final audit reports and letters will be issued to the Director of Resources and relevant Corporate Director for distribution within the Council as appropriate.

Table 6 Reporting

Reporting arrangements have been agreed with the Council

Table header	Draft by	Draft to	Final by	Members
Audit and Inspection Plan 2008/09	15 April 2008	Director of Resources	31 May 2008	Audit Committee
Report to those charged with governance (Note 1)	31 August 2008	As above	30 September 2008	As above.
Audit Report (Note 2)	As above	As above	As above	As above.
Certificate (Note 3)	As above	As above	As above	As above.
Annual Audit and Inspection Letter	To be confirmed	Chief Executive	To be confirmed	Cabinet

Table header	Draft by	Draft to	Final by	Members
(including direction of travel assessment) 2007/08				
Oral and/or written reports or memos on specific aspects of audit work	To be agreed for each piece of work	To be agreed for each piece of work	Within 7 days of receiving agreed action plan	As appropriate

Note 1: This includes the full range of responsibilities under statute and the Code. However, these reports will not duplicate significant matters previously communicated to those charged with governance, for example through reports, memoranda or presentations on specific pieces of work during the year.

Note 2: This includes the opinion on the financial statements and the conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources.

Note 3: Auditors are required to certify the completion of the audit, which closes the audit.

Inspection reports

- 43 All inspection reports are public reports and are published on the Audit Commission's website (www.audit-commission.gov.uk).
- 44 We will share draft reports with the Council in advance of publication and ask for the Council's comments on the draft report. We will take these comments into account in finalising the report.
- 45 We may issue a press release on the inspection, at our discretion; any press releases will be shared with the Council shortly before publication of the report.

Grant claims and returns

This section sets out the arrangements with the Council in relation to the certification of grant claims and returns.

- 46 The Council should establish proper arrangements to ensure the completion and accuracy of grant claims. It is the Council's responsibility to ensure that it maximises its income by completing all relevant grant claims accurately and meeting the appropriate deadlines for submission to grant paying bodies and the Audit Commission. It is responsible for establishing adequate systems to control their preparation and authorisation in accordance with appropriate guidance.
- 47 We will agree a timetable for submission of grant claims and returns with the Council, which takes account of the deadlines for sending the claims to government departments and audit certification.
- 48 The work that we undertake in the certification of grant claims is specified by the Audit Commission in certification instructions (CIs), including the level of testing and the appropriateness of placing reliance on the work of IA. We will continue to provide copies of relevant CIs to the Accountancy Services Manager as they are issued.
- 49 Our approach in this area will reflect recent changes to the Audit Commission certification regime, which are designed to reduce the regulatory burden on councils. This involves a more risk-based approach to the certification of grant claims. Smaller claims are no longer subject to audit or receive a lighter touch. The approach to larger claims is determined by risk and the adequacy of the Council's control environment.
- 50 Existing liaison arrangements in terms of grant certification continue to work well and the quality and timeliness of supporting working papers is generally good.

Table 7 Grant claims and returns

Arrangements for the certification of grant claims and returns have been agreed

The Council	Key officer	Key documents	The Audit Commission
To ensure proper arrangements for the completion, accuracy, authorisation and timeliness of grant claims and returns.	Accountancy Services Manager	Grant procedure notes Timetable for completion IA plans and working papers Certification Instructions (CIs)	Audit and certification of grant claims.

Additional arrangements

There are a number of other areas where we have established agreed arrangements with the Council.

- 51 In addition to the statutory duties and responsibilities listed above there are a number of other arrangements, both within the code and more informally, where it is useful to agree the protocol for the relationship and respective responsibilities. These areas include:
- auditor’s special powers and duties.
 - Public Interest Disclosure Act; and
 - Freedom of Information Act.

Auditor’s special powers and duties

- 52 In addition to the general functions of auditors set out in the Code, as the Council’s external auditors, we have specific powers and duties under the Audit Commission Act 1998. In exercising any of these powers, we will tailor our approach to the particular circumstances of matters under consideration. The respective responsibilities, as covered by the Code, are outlined below.

Table 8 Special audit powers and duties

Arrangements for exercising special audit powers and duties have been agreed

The Council	The Audit Commission
<p>In the unlikely event, of the Council being notified of a proposed use of audit powers, it will facilitate such arrangements as necessary, including access to documents and personnel. It will also pay the agreed additional fee, if any.</p>	<p>Any proposed exercise of powers under the Act would be communicated as soon as possible to the appropriate officers and arrangements made for:</p> <ul style="list-style-type: none"> • ongoing liaison with officers; • additional audit fee; and • reporting.

Public Interest Disclosure Act (PIDA)

- 53 The following table sets out the respective responsibilities in relation to the Public Interest Disclosure Act (PIDA).

Table 9 PIDA responsibilities

Arrangements for handling disclosures under PIDA have been agreed

The Council	The Audit Commission
<p>In the unlikely event of the need of the Council being notified of a proposed investigation, it will facilitate such arrangements as necessary, including access to documents and personnel and will pay the agreed additional fee.</p>	<p>An investigation will be carried out under the auspices of the Audit Commission.</p> <p>The requirement for any such investigation will be communicated as soon as possible to appropriate officers.</p>

Freedom of Information Act (FoIA)

- 54 Information obtained or generated as part of Audit Commission functions such as inspections, studies, comprehensive performance assessments, or grant certification work is subject to the FoIA.
- 55 Both Sedgefield Borough Council and the Audit Commission are “public authorities” for the purpose of the Freedom of Information Act 2000 (“the FOIA”). We will both be required to provide individuals with information that they request, subject to any exemption that may apply (see paragraph 56 below). A request could potentially include draft versions of inspection reports. The Commission would seek to withhold drafts on the basis of section 49A of the Audit Commission Act 1998 (i.e. that disclosure would harm our ability to undertake our statutory functions and that, in any event, the information is due to be published at a future date).

Appendix 1 – Frequency of meetings

- 1 The following table sets out the agreed pattern of routine liaison meetings with the key contacts of the Council. Clearly there may be instances when more frequent meetings are necessary, for example, to discuss new local or national issues or when particular pieces of work are underway. Moreover, the attendees listed are entitled to ask other people to attend as and when required.

Attendees	Title	Frequency of meetings
Brian Allen, Marion Talbot and Paul Heppell	Audit and Inspection Issues	Quarterly
Alan Smith and Paul Heppell	Section 151 Officer Issues	Bi-monthly
Dennis Hall and Ross Woodley	Monitoring Officer Issues	Three Times A Year
Az Rafiq and Ross Woodley	Internal and External Audit Liaison	Three Times A Year

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Appendix 2

Protocol for the Certification of Grant Claims

Introduction

- 2 It is important that the Council has efficient and effective arrangements in place to ensure that there are no deficiencies in the way grant claims and returns are handled. One of the key elements of the administration of grant claims is the relationship with the external auditor who will be certifying the claim.
- 3 The responsibility for good grant claim administration was given added importance with the issue of the Accounts and Audit Regulations 1996, which specifically required the maintenance of records relating to grant claims in accordance with proper practices.
- 4 The Audit Commission adopts the following thresholds for auditing grant claims:
 - Claims less than £100k – no audit certification
 - Claims between £100K and £500K - a light touch audit is required
 - Claims greater than £500K– an assessment has to be made as to whether or not reliance could be placed on the control environment. Where reliance could be placed, lighter touch testing is applied but where reliance could not be placed then full testing will be applied.
- 5 This new approach means the Authority had a certain amount of control as to the time taken on grant claim certification and consequently the level of fees.
- 6 There is a constant stream of new guidance on the administration of grant claims but the key points remain the same:

Table 10 SUMMARY OF KEY POINTS

A	Local authorities are required by statute to maintain proper records or grant claims.
B	Local authorities need to manage their procedures effectively to ensure achievement of their full entitlement to grants.
C	Local authorities can achieve considerable improvements in their management of grant claims through: <ul style="list-style-type: none"> • appointing a co-ordinator for grants work • planning for timely submission of claims • supervising work on claims.
D	Internal quality control can play a valuable role in ensuring the accuracy of grant claims.
E	Liaison with external audit is essential to achieve prompt and accurate submission of claims.

Objective

- 7 The objective of this protocol is to maintain the partnership approach between the Council and the Audit Commission. Our shared aim is to minimise the cost of grants certification, whilst ensuring that all appropriate procedures are met.

Structure

- 8 The protocol indicates good practice in the following areas:
- the role of the grants co-ordinator;
 - the working papers required to support claims; and
 - the degree of pre-audit review.

The role of the grants co-ordinator

- 9 The Council has nominated John Hawes (Accountancy Services Manager) as grants co-ordinator with responsibility for:
- liaising with relevant officers to establish a comprehensive schedule of grants and returns expected in 2007/2008 and 2008/2009;
 - ensuring that the schedule and timetable are kept up to date and informing AC of any changes
 - ensuring that all staff involved in grants and returns compilation are aware of their responsibilities, including deadlines and the consequences of not meeting them

- reviewing the register to monitor progress against timetable, follow-up missed targets and keeping AC informed;
 - obtaining management information on grant claims as a means of identifying problems as well as identifying recharges; and
 - ensuring that an adequate system of quality control is in place and making officers aware of working paper requirements, the need for supervision and the degree of pre-audit review.
- 10 A key task of a grants co-ordinator is to ensure that officers provide claims and supporting working papers to the auditor as early as practicable. This is largely driven by the submission deadline for the individual claims. Early submission does however have a number of advantages:
- makes it easier to accommodate slippage;
 - allow more time for pre-audit review and correction of errors or working paper weaknesses;
 - smooth out the audit workload, which currently involves the majority of claims having to be audited in the final 2 or 3 months of the year; and
 - helps to avoid the time problem of officers and auditors having to resolve issues while up against the claims deadline.

Working papers

- 11 The Accounts and Audit Regulations 1996 require the Chief Finance Officer to ensure that the accounts and supporting records are maintained in accordance with proper practices.
- 12 It should be noted that grant claim documentation is not prepared primarily for the external auditors only. It is also important for the Council to have clear records in order to respond to other interested parties and to assist preparers of grant claims in the next year and in future years. Some grant paying bodies do also require us to check that authorities are retaining working papers for set periods - e.g. ERDF claims.
- 13 Auditors rely on the provision of clear, comprehensive working papers to support grant claims. This helps avoid unnecessary officer time in dealing with queries. Officers understanding of what we expect in respect of working papers should be assisted by reference to the Certification Instruction (CI) issued by the Audit Commission.

Pre-audit review

- 14 There is a format for the supervision and review of grant claims before a claim is submitted for audit. This ensures that officers have undertaken the appropriate steps to correct basic errors and provide minimum expected working papers before claims reach the auditor. Such a review should be evidenced on the working paper files.

- 15 We would expect that as a minimum the following should be confirmed as part of the pre-audit review:
- the claim has been submitted on the correct form;
 - it is fully completed and the arithmetic is correct;
 - entries agree to the authority's income and expenditure accounts;
 - comparison with previous claims to provide assurance that entries on the form are reasonable;
 - confirmation that working papers are adequate to support the entries;
 - contracts have been awarded in accordance with standing orders;
 - charges for goods or services provided in-house are made on the same basis as those charged to non-grant earning activities;
 - duplication with other claims has been avoided;
 - payments on account are agreed and reflect the position at the date of the authority's certificate; and
 - analytical review has been carried out where appropriate. This involves comparing figures on claim forms to previous years and/or budgets and seeking explanations for significant variances.
- 16 It should be noted that materiality is not a concept which applies to grant claims; errors identified will result in amendment to or qualification of the claim.

The role of the Audit Commission

- 17 The external auditors' role in relation to grants and returns requiring audit certification is to satisfy themselves that claims are fairly stated and comply with the conditions of a scheme. We fulfil this role by carrying out detailed audit procedures in accordance with instructions issued by the Audit Commission.
- 18 We will also:
- hold regular discussion about expected claims with the Co-ordinator and relevant officers;
 - provide notification of any major changes to certification instructions as provided by the Audit Commission; and
 - hold discussions of any problems that may arise that could impact significantly on the certification process
- 19 . The table below summarises all the key issues for the Authority:
- the nomination of an officer to act as Grants Co-ordinator and the formal defining of this role;
 - maintaining the timetable for earlier completion of claims and submission to the auditor;
 - ensuring Certification Instructions get to the relevant officers;

- confirming that adequate working papers are on file before submitting a claim; and
 - ensuring a pre-audit review of the grant claim and supporting working papers is fully carried out (including carrying out an analytical review). This is very important as plays a large part of the auditor's assessment and could lead to claims being given the 'full' instead of the 'lighter touch' audit.
- 20** We will review the effectiveness and efficiency of these arrangements with the Council annually. This should help ensure that both partners discharge their duties in a co-ordinated, efficient manner, and that our work is carried out in a way which supports improvement in the Council's services.
- 21** We hope to continue the good working relationships with officers and that these arrangements will help both parties to make the best use of the available audit resources.

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Appendix 3

Legality Protocol

Audited Bodies

- 22 The Code of Audit Practice (the Code) states that “it is the responsibility of audited bodies and their officers to act within the law”. In order to help prevent local authorities from breaching the Ultra Vires rule, Parliament has provided for the establishment of three statutory officer functions, with specific responsibility for considering and advising on the legal aspects of any proposed transaction that an authority may be proposing to take:
- Head of Paid Service
 - Monitoring Officer
 - Chief Financial Officer
- 23 The principal roles and functions of these Officers are as follows:-
- 24 The Head of Paid Service:-
- overall corporate management and operational responsibility (including overall management responsibility for all employees);
 - the provision of professional advice to all parties in the decision making process (full Council, Cabinet overview and scrutiny and other Committees);
 - together with the Monitoring Officer, responsibility for a system of record keeping for all the Local Authority’s decisions; and
 - representing the Local Authority on partnership and external bodies (as required by statute or the Local Authority).
- 25 The Monitoring Officer:-
- maintaining an up-to-date version of the Constitution and ensuring that it is widely available for consultation by Members, employees and the public;
 - after consulting with the Head of Paid Service and Chief Finance Officer, reporting to the full Council or to Cabinet (the executive) in relation to an executive function if he or she considers that any proposal, decision or omission would give rise to unlawfulness. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered;
 - assisting with the preparation, adoption and monitoring of and revisions to and compliance with the Council’s Code of Conduct;
 - contributing to the promotion and maintenance of high standards of conduct through provision of support to the Standards Committee and advising, training or arranging for the training of Members on matters relating to the Authority’s Code of Conduct.

- supporting the Standards Committee in connection with the performance of its functions in relation to Town and Parish Councils, and the members of those authorities and in particular to act as their Monitoring Officer;
- receiving and acting on reports made by ethical standards officers and decisions of case tribunals;
- conducting investigations into matters referred by ethical standards officers and making reports or recommendations in respect of them to the Standards Committee. Implementing the new arrangements for the local determination of complaints;
- ensuring that executive decisions, together with the reasons for those decisions and relevant Officer reports and background papers are made publicly available as soon as possible;
- advising whether decisions of the executive are in accordance with the budget and policy framework; and
- providing advice on the scope of the powers and authority to take decisions, maladministration, financial impropriety, probity and budget and policy framework issues to all Councillors.

26 The Chief Finance Officer:-

- after consulting with the Council's Monitoring Officer, reporting to the full Council or to the Cabinet in relation to an executive function and the Council's external auditor if he or she considers that any proposal, decision or course of action will involve incurring unlawful expenditure, or is unlawful and is likely to cause a loss or deficiency or if the Council is about to enter an item of account unlawfully;
- responsibility for the administration of the financial affairs of the Council;
- contributing to the corporate management of the Council, in particular through the provision of professional financial advice;
- providing advice on the scope of powers and authority to take decisions, maladministration, financial impropriety, probity and budget and policy framework issues to all Councillors and supporting and advising Councillors and Officers in their respective roles; and
- providing financial information to the media, members of the public and the community.

The Council

- 27** The Monitoring Officer is under a duty to prepare a report to the Council, or the executive insofar as executive functions are concerned, if at any time "it appears to him that any proposal, decision or omission by the authority, or one of the Council's committees, sub-committees or officers, or by a joint committee on which the authority is represented, constitutes or may give rise to a contravention of any enactment or rule of law, and to report on maladministration or injustice where the Local Ombudsman has carried out an investigation.

- 28** The Monitoring Officer must consult so far as practicable with the Head of Paid Service and the Chief Financial Officer, regarding any such report and arrange for a copy to be sent to each Member. The Council, the executive or relevant Committee must consider the report within 21 days of its dispatch to Members, and ensure that no step is taken for giving effect to any proposal or decision to which the report relates at any time whilst implementation is suspended.
- 29** General and specific legal advice and support will be provided to the Council, the Cabinet, Committees and Panels by the Monitoring Officer and through him by the Authority's legal service. Such advice and support will also be given to Chief Officers and their Service Groupings.

Auditors

- 30** Under the Code, external auditors are required to give an independent assessment of "the adequacy of the audited body's arrangements for ensuring the legality of transactions that might have a financial consequence". Auditors have to consider:
- the question of legality and take reasonable steps to inform themselves of significant financial transactions or events that are unusual or of questionable legality;
 - the audited body's arrangements for implementing new legislation or statutory requirements; and
 - the applicability locally of any national issues; for example, on matters where guidance is issued by the Audit Commission.

Joint Working at a Local Level

- 31** In order to discharge its responsibilities, the Council has nominated Dennis Hall, as the Monitoring Officer.
- 32** In order to meet the Audit Commission's responsibilities and support the Council in discharging its responsibilities a contact and liaison point at the Council is considered to be required for legality issues. For this purpose it has been agreed that Dennis Hall, as Monitoring Officer, will be the relevant contact and liaison point. This will involve responding or organising responses to written requests from Audit Commission regarding any material legal issues affecting the Council or any new, or novel, proposed Council scheme or arrangement with a significant financial consequence, which has potential legal implications.
- 33** For the Audit Commission's part, we will provide the Council with details of legal issues that have arisen elsewhere and may have an impact on the Council.
- 34** Each year Audit Commission will also formally assess the likelihood of legal problems in order to inform our work in this area. We will review overall arrangements by reference to accumulated knowledge and intelligence gathered during the course of the audit.
- 35** In discharging our responsibilities, Audit Commission will maintain a dialogue on legal matters with the liaison officer through correspondence or meetings at

mutually agreed times and dates. These will cover updates to the transition plan and progress with equal pay cases as standing items on the agenda. We will also discuss legal issues with other relevant Council Officers when necessary, for example, the Head of Paid Service and the Chief Financial Officer. In addition, we will continue to review minutes and press reports to keep ourselves informed of the Council's activities, and, subject to prior agreement with the Council, periodically undertake in-depth reviews of arrangements for securing legality.

- 36 In Audit Commission's work we will maintain a general awareness of legal issues. Specifically, we will consider matters identified by the Audit Commission in technical releases and by Audit Commission's legal and technical group.

Freedom of Information Act (FoIA)

- 37 The FoIA came into force on 1 January 2005. Appointed auditors are not presently subject to the Act as they are not designated as public authorities. They are therefore not under any obligation to comply with FoIA requests about information collected or generated as part of the statutory audit functions under the Code of Audit Practice. In respect of its own functions, and in common with all public authorities, the Audit Commission has to:
- confirm or deny whether requested information is held, and
 - disclose that information unless another Act of Parliament prohibits it, or one of the FoIA exemptions applies.
- 38 Much of the information that we hold is collected from officers under the powers granted by the Audit Commission Act 1998 (ACA). Except in certain circumstances, disclosure of that information could have been a criminal offence. ACA has now been amended so that the Commission can disclose information it holds unless doing so would 'prejudice the effective performance' of its statutory functions.
- 39 We will respond to requests for information supplied to us by your Authority by identifying whether the requested information is already published. If it is, we will direct the applicant to the relevant source for that information. If the request is for non-published information we will consult with you to seek permission for it to be disclosed. If permission is granted, we will disclose it. If permission is refused, we will consider whether we have grounds to withhold the information, taking into account other legislation, including ACA. If you do refuse, we would ask for reasons and a legal justification such as an exemption or other Act of Parliament. If the auditors do not have grounds to refuse, the information will have to be disclosed.
- 40 The timescale to reply to applicants is limited to twenty working days and therefore we would ask that the Authority responds to our requests for permission to disclose within three working days. If we don't receive a reply in that time, we will be obliged to make our own judgement about disclosure.
- 41 In the same way, reciprocal arrangements to those outlined in clauses 15 and 16 would apply if you receive a request for information supplied to you by the Audit Commission. The only caveat being that we would attempt to meet the three

working day period for responding to requests for permission to disclose but accepting that this is in the hands of the central Audit Commission as opposed to the 'local' audit team.

- 42 We would ask that as a first point, you contact your Audit Manager, Paul Heppell. Technically the new legislation does not yet impact on the Audit Commission. We would however, consider each request on a case by case basis to determine whether the information was subject to confidentiality restrictions and could be released.

Third Party Complaints

- 43 Where Audit Commission receives complaints from third parties regarding the Council's services, its employees or Members, those complaints may be referred to or discussed with the liaison officer. Where Audit Commission propose to respond to the complaint direct, so far as reasonably practicable, the liaison officer will provide or arrange to provide, within an agreed time, sufficient information about the complaint to enable such a response to be made. Where Audit Commission wish the Council to respond to the complainant direct, the liaison officer will ensure that the complaint is handled in accordance with the Council's appropriate complaints procedures. In all such cases involving alleged Member misconduct due regard will need to be given to the role and responsibilities of the Standards Board for England.
- 44 Where Council Officers receive complaints from third parties, they will be dealt with in a courteous, reasonable and responsive manner in accordance with the Authority's complaints procedures and they will not be referred, either directly or indirectly, to the District Auditor until such time as the Council's procedures have been exhausted. In particular, complaints will not be passed on to Audit Commission, and complainants will not be advised to raise a matter with the District Auditor, unless those complaints have been fully investigated on behalf of the Council.

Conclusion

- 45 Audit Commission believe that joint working in this way will both satisfy the Code of Audit Practice and assist the Council in dealing with the challenge of ensuring the lawfulness of its transactions and the efficiency and effectiveness of its services. Both Audit Commission and the Liaison Officer will keep these arrangements under review with a view to identifying any scope for improvement.

Appendix 4

Internal Audit Protocol

Introduction

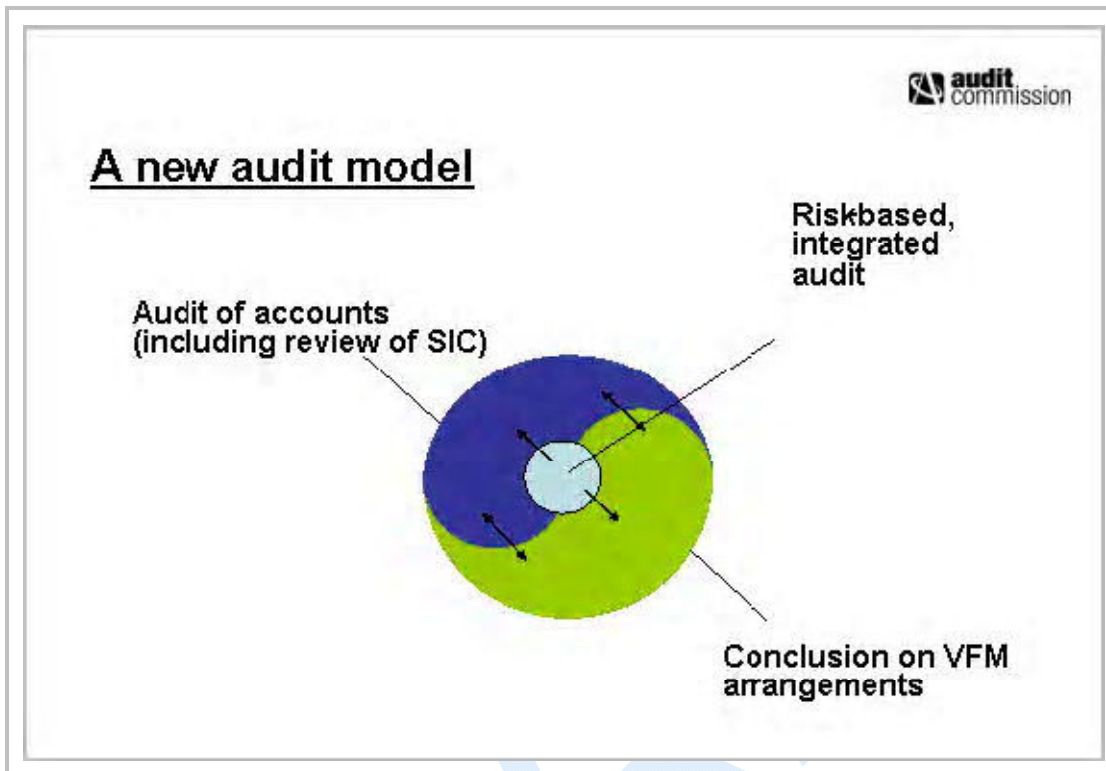
- 46 The arrangements for working with Internal Audit and the associated benefits have already been agreed and documented in previous years. The purpose of this document is to update the position to reflect the most recent internal and external audit codes of practice. It sets out how internal and external audit (the Commission) will work together and establishes a framework for co-ordination, co-operation and exchange of information.
- 47 In summary, this protocol outlines:
- the Audit Commission Code of Audit Practice (the Code) and the respective roles of Councils and external audit;
 - the requirements of the International Standards on Auditing (UK and Ireland) and their impact on the work of external auditors;
 - the consideration of Internal Audit work; and
 - the development of effective working arrangements with Internal Audit.

Code of Audit Practice

- 48 The latest Audit Commission Code of Audit Practice came into effect from April 2005 and is designed to secure:
- a more streamlined audit, which is proportionate to risk and targeted on areas where auditors have most to contribute to improvement;
 - a stronger emphasis on value for money, focusing on bodies' corporate performance and financial management arrangements (rather than individual services and functions); and
 - better and clearer reporting of the results of audits.
- 49 The audit model is shown in Figure 1 overleaf.

Figure 1 The Code of Audit Practice

The Code of Audit Practice came into effect from April 2005



Code of Audit Practice, Audit Commission

- 50 The Code sets out the respective responsibilities of Councils and external auditors:

Table 11 Responsibilities under the Code of Audit Practice

Council’s responsibilities	External auditor’s responsibilities
<p>It is the responsibility of the Council to:</p> <ul style="list-style-type: none"> • put in place systems of internal control to ensure the regularity and lawfulness of transactions and prepare and publish an Annual Governance Statement; • maintain proper accounting records; and • prepare financial statements that present fairly the financial position of the body 	<p>Audit the financial statements and to give an opinion on whether they present fairly the financial position of the audited body and its expenditure and income for the year in question. The opinion will also state whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards.</p> <p>In carrying out this responsibility, auditors should provide reasonable assurance that the financial</p>

Council's responsibilities	External auditor's responsibilities
<p>and its expenditure and income.</p>	<p>statements:</p> <ul style="list-style-type: none"> • are free from material misstatement, whether caused by fraud or other irregularity or error; • comply with statutory and other applicable requirements; and • comply with all relevant requirements for accounting presentation and disclosure. <p>Auditors should review whether the Annual Governance Statement has been presented in accordance with relevant requirements and to report if it does not meet these requirements or if the Statement is misleading or inconsistent with other information of which the auditor is aware.</p>

51 New International Standards on Auditing (ISAs) were introduced with mandatory effect from 2005/06. These have a direct impact on the statutory opinion audit duty. The ISAs represent a significant strengthening of external audit over the current Statement of Auditing Standards (SAS) requirements. The standards that principally affect our working relationship with Internal Audit are:

- ISA 315 – Understanding the entity, its environment and assessing the risks of material misstatement.
- ISA 330 – Procedures in response to assessed risks.
- ISA 240 – Consideration of fraud.
- ISA 610 – Considering the work of Internal Audit.

52 In summary, the approach requires us, as external auditors, to:

- gain an understanding of the information systems that are relevant to producing material figures in the accounts;
- gain an understanding of the way transactions in these systems are initiated, recorded, processed and reported;
- carry out interim opinion audit planning - identifying risks of material misstatement (inherent risks in the systems, or specific risks in the Audited Body) - and planning tests of controls that are designed to prevent the material misstatements;

- carry out tests of controls where those controls are key to ensuring there are no material misstatements in the assertions in the financial statements;
- reassess the risks at the time the draft financial statements are produced; and
- plan and carry out tests of control or substantive tests of detail against the remaining risks for each of the assertions for material entries in the accounts.

53 Understanding information systems and testing key controls are clearly key areas where Internal Audit has a great deal of experience and provides significant assurance to the Council. We will place reliance on Internal Audit, wherever it is feasible and cost-effective to do so. However, external auditors must demonstrate their own understanding of the systems and controls and thus we will continue to update our own systems documentation and carry out walk-through tests to confirm the controls are operating as described. We will consider the extent of control testing that we undertake in the light of our walk-through tests and the assurance available from Internal Audit and our own year-end procedures.

54 It is important that we understand the operation of computer systems so the use of appropriate computer audit techniques will be a key element of the review process.

ISA 610: Considering the work of Internal Audit

55 We will seek to maximize our reliance on the work of Internal Audit particularly in relation to the Council's core financial systems. In this respect, ISA 610 requires external auditors to:

- review Internal Audit's work every 3 years (2007/2008 assessment in progress) to confirm that it meets, as a minimum, the requirements of the CIPFA Code and CIPFA Internal Audit Manual. This will provide assurance that work is to a standard and can be relied on to inform external audit conclusions;
- review whether Internal Audit is effective as a management control, as part of the annual control environment assessment; and
- review (and seek to place reliance on) specific pieces of Internal Audit work, where that work covers areas relevant to our Code of Audit Practice objectives and it is more efficient to review Internal Audit work than do the work ourselves.

56 The ISA makes one important change with regard to reviewing the work of Internal Audit. Where external auditors intend to use Internal Audit's work to inform conclusions, the specific work must be evaluated and this may involve re-performance of Internal Audit work, testing of similar items or observing Internal Audit work.

57 Where it is not possible to place reliance on the work of Internal Audit because they have not tested the control that we need to rely upon or have not done so in accordance with the CIPFA Code for Internal Audit, we may request that additional work is performed or we may undertake our own work at additional cost

to the Council. We also need to consider whether we can place reliance on the work of Internal Audit for the whole financial year. Where testing applies only to a limited time period we may also need to request that additional work is performed by Internal Audit or we may undertake our own work at additional cost to the Council.

Working with Internal Audit

- 58 The CIPFA code defines Internal Audit as ‘an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisations objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources’. The responsibilities of Internal Audit are set out in their Audit Charter.
- 59 The Code and ISAs recognise Internal Audit’s key role in the control framework, and that internal and external audit’s responsibilities overlap in some areas. To ensure a more streamlined audit the Code requires external auditors to establish effective co-ordination arrangements with Internal Audit and seek to place reliance on the work of Internal Audit wherever possible.
- 60 The certification of grant claims rests outside the Code of Audit Practice. However, the audit of claims may require testing of the systems on which the claims are based. In these circumstances, we will continue to seek to place reliance on work performed by Internal Audit wherever possible.
- 61 Where internal and external audit work closely together the following benefits should accrue.

Table 12 The benefits of joint working

Internal audit	The Council	External audit
Increased credibility and presence with management and Members (those charged with governance).	Clearer, more consistent reporting of audit issues.	Better understanding of the corporate framework.
Greater emphasis on Internal Audit’s own objectives.	Reduced opportunity for duplication or omission of audit work.	The audit is more tailored and relevant to the Council.
Greater awareness of risk from an external observer’s perspective.	Better focused audit work that provides relevant information.	Increased awareness of risk factors at the Council.
Opportunity for cross training e.g. IT audit	Maximises the positive impact of audit.	More efficient audit approach.

Liaison arrangements

- 62 We will continue to meet regularly with Internal Audit to update issues identified in relation to the audit, review progress and exchange information. The agreed contacts for the Audit Commission and Council are identified in the table below:

Table 13 Key contacts

Key contact	E-mail	Telephone
Audit Commission		Ext 4365
Paul Heppell Audit Manager	p-heppell@audit-commission.gov.uk	
Ross Woodley, Principal Auditor	r-woodley@audit-commission.gov.uk	
Internal Audit		Ext 4245
Az Rafiq, Audit and Resources Manager.	arafiq@sedgefield.gov.uk	
Sarah Davies, Principal Auditor	sadavies@sedgefield.gov.uk	

- 63 The Audit Commission and Internal Audit will also share the results of planning and risk assessment exercises for the 2008/09 audit. These will be used to discuss any areas where there may be an overlap of responsibilities and identify any areas where joint working may be appropriate.
- 64 The Audit Commission and Internal Audit will continue to share all final reports.
- 65 We will also continue to provide Internal Audit with fraud risk warning bulletins when they are issued by the Audit Commission. Internal Audit will provide details of all significant frauds (>£1,000) and cases of corruption, excluding benefit overpayments.

Agreed action

- 66 We will identify the systems which we consider to be material to the production of the Council's financial statements, update our documentation of these systems and carry out walk-through tests. Internal Audit will undertake an annual review of these systems and test key controls. We will seek to rely on this work where this work is considered the most efficient means of obtaining the assurance we need to support our opinion.
- 67 In carrying out our audit of the Council's financial statements, we will ensure that the requirements of appropriate International Standards on Auditing are met.
- 68 We will present summary reports on our work, if deemed appropriate, to the Council's Audit Committee (or other appropriate committees) during the year.

Computer Room Installation Controls Review

Sedgefield Borough Council

Audit 2006/07

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

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

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

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

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

Status of our reports to the council

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

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

Copies of this report

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Introduction

- 1 As part of our annual risk assessment process associated with planning the 2006/07 audit at Sedgefield Borough Council, we have completed a review of the computer room installation controls. The review has been carried out due to the recent upgrading of the computer room infrastructure and to aid our understanding of the Information and Communications Technology (ICT) environment which is required to comply with the International Standards of Auditing.
- 2 The use of robust IT systems and a controlled IT environment impacts how well an organisation monitors both its financial position and produces its annual financial statements. The Audit Commission considers whether the council has responded adequately to the risks arising from IT by establishing effective general IT and applications controls on material business systems. Controls over IT systems are deemed to be effective when they maintain the integrity of the information and the security of the data such systems process.
- 3 General IT controls include policies and procedures that relate to many of the key business systems as well as the environment to support their effective functioning. This brief review includes an assessment of the controls in the following areas:
 - physical security arrangements;
 - environmental controls to support operation of systems;
 - disaster recovery; and
 - logical access controls (key business systems and corporate network facilities).

Main conclusions

- 4 The Council provides and manages all of its key business systems in-house. The main physical access and environmental controls are adequate and operating in a satisfactory manner with some minor areas identified for improvement. One of the indicators for a well managed ICT service is the availability of policies and procedures. The ICT department has on-line operational procedures in place but it is weak in the availability of council wide IT usage related policies, for example, an ICT security policy.
- 5 Logical access controls to the corporate network and some of the key business systems in the main are good and follow best practice suggested in BS17799 (now ISO27001:2) guidance. The only exception is the commonly set parameter for 90 day frequency between password changes which is longer than best practice recommends.

- 6 The Council is one of very few that has developed an in-house disaster recovery off-site facility for its key business systems. Updated insurance cover for IT equipment/inventory is in progress/complete and there is no history of theft, computer virus attacks or breaches of network security.
- 7 During 2006/07 Internal Audit reviewed ICT security. We have assessed their findings and our work concurs with some of their reported results. We have therefore not included any recommendations already suggested. Overall, there are no significant threats or concerns to the data processing activities operated by the Council.

Key issues

General environmental controls

- 8 The general environmental controls covers the following areas:
 - physical access;
 - air conditioning;
 - fire and smoke mechanisms; and
 - backup power supply.

Physical access

- 9 The computer room is located on the ground floor of the main council offices building at Green Lane; adequately remote from public access areas. All business systems servers are centralised in this location which also houses the council's reprographic/print service.
- 10 Entry to the computer room is through the use of an electronic key fob (a type of security token usually a small hardware device with a built-in authentication mechanism) which automatically opens/closes the computer room door when in close proximity to the sensors. The key fobs are issued on a restricted basis to most ICT staff in the three main service areas (Infrastructure, Development and Customer Support).
- 11 The physical entry controls are satisfactory, however, only the Infrastructure team has a strong operational need to warrant their presence in the computer room. We note that the standard protocol is to ensure council staff and visitors are not left unsupervised in the computer room. The only minor weakness identified is the absence of an internally maintained log book to formally record visits, for example, service engineers, auditors.
- 12 An inspection of the computer room focusing on the security features confirmed that the passive infra-red motion detector assumed to be linked to the alarm system was not visible. It was later found to have been placed above the suspended ceiling in a position where it could not perform its security function.

- 13 The windows of the computer room have internal bars fitted and on initial inspection they seemed to be more of a deterrent feature than an effective barrier to forced entry. A polarised reflective/mirror film has been applied to the windows to aid in preventing IT equipment inside being easily viewed but this feature is not effective close up.

Air conditioning

- 14 The air conditioning system is regularly maintained and seen to be operating effectively. There is no health and safety issue over noise as Infrastructure team staff normally sits in an adjoining office limiting their exposure to potentially high noise levels.
- 15 All previous heating pipes have been disconnected. There are no water or moisture detectors in the computer room but no history of any water related damage. There are some plans to install shower facilities near the computer room and the Council has carried out a risk assessment to determine and manage the installation. We have no additional concerns.

Fire and smoke mechanisms

- 16 The computer room has a fully maintained non-halon fire suppressant and smoke alarm system. The room is not used as an additional storage location for paper or other IT related consumables. A large storage bin is available to collect any waste material for disposal and there is no evidence of any combustible or hazardous materials. The arrangements in place are satisfactory.

Backup power supply

- 17 The computer room has recently been re-furbished in part to accommodate a larger new uninterruptible backup power supply which can provide sufficient power to enable a controlled closedown of systems and prevent corruption/damage to data in the event of an outage action. We have no concerns about the backup power supply arrangements.

<i>Recommendations</i>
<i>R1 Implement a manual internal log book system to maintain a record of all external visitors to the computer room.</i>
<i>R2 Restrict automatic access to the computer room to staff who need to work in it, for example, Infrastructure Team staff who manage the servers and communications equipment.</i>
<i>R3 Ensure that the passive infra-red and security alarm system is tested and re-assess the adequacy of the present physical control arrangements to prevent a forced entry to the computer room.</i>

Data backup and disaster recovery arrangements

- 18 The data backup backups for all key departmental systems are taken on at least a daily basis and are subject to periodic testing with additional copies stored securely both on and off-site.
- 19 The Council is one of the very few that has in place a dedicated backup data processing setup providing a good degree of disaster recovery resilience. The backup site is located in one of the rooms on the ground floor of the Central Depot a few miles away. The room is not identified as such, locked (keys retained by ICT staff) with adequate environmental and backup power arrangements. We have no immediate concerns about the Council's disaster recovery arrangements. Corporate business continuity arrangements are the responsibility of each department and these have not been covered in the scope of this review.
- 20 We note there are no procedures to ensure that data on failed server hard disks has been rendered inaccessible. In the event of a hard disk failing, the failed disk is returned to the supplier for a replacement. Our concern is that suppliers often analyse failed disks to determine reasons for failure. To aid them in this task they use sophisticated tools, which in some instances can recover significant amounts of stored confidential data. Failure to protect data adequately could result in the Council not be meeting its obligations under the Data Protection Act.

Recommendation

R4 Ensure that any failed hard disks returned to suppliers are magnetically wiped clean or seek suitable assurance from suppliers that confidential data will not be accessed/wiped clean by them.

Logical access controls

- 21 Strong logical access controls provide a mechanism to restrict access to key business systems to authorised staff only. We have reviewed the adequacy of logical access controls through the completion of a self assessment questionnaire sent to system administrators managing the corporate network and departmental systems (Resourcelink - payroll, Agresso main accounting and Northgate SX3: Revenues and Benefits).

Network access controls

- 22 The procedures for setting up starters/leavers to the corporate network including are satisfactory and meet best practice guidelines. There are only two logical access parameters where there is scope for improvement:
- password change frequency at 90 days is too long; and
 - password reuse to prevent re-use of old passwords at only two is low.
- We have no significant concerns over the network backup arrangements and general operational management.

Agresso main accounting system

- 23 The logical access settings for the main accounting system are satisfactory and there are no significant concerns.

Northgate SX3: Revenues and Benefits

- 24 Overall, the logical access controls are adequate but there is some scope for improvement in the following areas:
- password change frequency at 90 days is too long.

Resourcelink - Payroll

- 25 The logical access controls for the payroll system are overall quite strong with the following exception:
- password change frequency at 90 days is too long.

<i>Recommendation</i>
<i>R5 Password controls should ensure that all passwords are a minimum of seven characters, prevent re-use of the last 10 passwords and enforce changes every 30 to 60 days. Complexity rules for passwords should be activated where this feature is available, for example, capital and numeric characters are included.</i>

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Comments	Date
6	R1 Implement a manual internal log book system to maintain a record of all external visitors to the computer room.	2	Head of ICT	Agreed	Complete
6	R2 Restrict automatic access to the computer room to staff who need to work in it, for example, Infrastructure Team staff who manage the servers and communications equipment.	2	Head of ICT	We have considered this and feel that it may cause problems. The two large Xerox printers are in the computer room and staff can ask for items from these outside of 'normal office hours'. In these instances it is normally 'an emergency' and it would not be appropriate to reduce the level of service so that only some members of the IT Section could deal with this type of request. Therefore we have decided that it is better for the help desk and development teams to have access to the computer room. The server and network cabinets are locked so only the infrastructure team have access to these. However, we will keep the situation under review.	Ongoing.
6	R3 Ensure that the passive infra-red and security alarm system is tested and re-assess the adequacy of the present physical control arrangements to prevent a forced entry to the computer room.	3	Head of ICT	As there has been some major work undertaken on the air conditioning units over the last few months the location of the passive infra-red alarms could not be changed until the work was completed. Now that the work has been finished, this is currently being looked into.	Ongoing.
7	R4 Ensure that any failed hard disks returned to suppliers are magnetically wiped clean or seek suitable assurance from suppliers that confidential data will not be accessed/ wiped clean by them.	2	Head of ICT	Assurances have been obtained from the suppliers that they erase disks returned to them. However, we will look into the costs/benefits of obtaining a disk eraser.	Ongoing.

10 Computer Room Installation Controls Review | Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Comments	Date
8	R5 Password controls should ensure that all passwords are a minimum of seven characters, prevent re-use of the last 10 passwords and enforce changes every 30 to 60 days. Complexity rules for passwords should be activated where this feature is available, for example, capital and numeric characters are included.	2	Head of ICT	We have reviewed this and consider our existing policy to be adequate. It has been proved that changing complex passwords too frequently can result in users being more likely to write them down. Therefore there is a balance to be drawn between the complexity of the passwords (which in our case our network password complexity is high) against the frequency of it changing. We will however, continue to monitor this.	Ongoing

15th APRIL 2008

REPORT OF DIRECTOR OF RESOURCES

Portfolio: STRATEGIC LEADERSHIP

INTERNAL AUDIT PLAN 2008/2009

1. SUMMARY

The Internal Audit Plan for the period 1st April 2008 to 31st March 2009 has been prepared and takes into account the changes affecting the Council and its services as well as the wide range of corporate governance issues considered an integral part of any well-run organisation. Consultation with the Internal Audit service customers has taken place and views expressed have been fully considered in the Audit Plan's production.

2. RECOMMENDATIONS

It is recommended that:

- 2.1 The Internal Audit Plan for 2008/09, as detailed in **Appendix 3** be approved.
- 2.2 A half-yearly progress report is submitted to a future meeting of this Committee.
- 2.3 Significant developments associated with the Audit Plan be reported to this Committee as necessary.

3. AUDIT PLAN 2008/09

3.1 **Background**

The production of a comprehensive Audit Plan is an essential requirement for the delivery of an effective Internal Audit service which is driven by statutory requirements. In addition to the identification of planned areas of audit activity, the Plan provides the structure for the essential performance management work needed to ensure the practical completion of identified projects.

The statutory issues that drive audit plans are provided at **Appendix 1**. The growth of risk management and other corporate governance best practice has identified the need to ensure the resources of Internal Audit are suitably prioritised to focus on the needs and key risks of the Council as well as meeting these statutory demands.

The Audit Plan and associated management and monitoring also assists the Audit Commission in forming judgements in relation to their statutory duty to express opinion to the Council on the service provided by Internal Audit.

3.2 **Audit Plan 2008/09**

Internal Audit Plan 2008-2009 – Audit Committee 15.04.08

The proposed Internal Audit Plan for the year is attached at **Appendix 3** and shows a total of **808 days**, compared with the approved Plan for 2007/08 of 911 days. The Audit Plan has been prepared following a risk-based assessment.

The approved staffing establishment consists of an audit team of 5 staff to carry out actual audit work reporting to the Audit and Resources Manager. At the present time the section is operating with 2 trainee auditor vacancies. For planning purposes the availability of the equivalent of 4 persons for 2008/09 has been assumed to deliver the work detailed in the Audit Plan and additional resources would need to be acquired to take account of recruitment protocols now in place within County Durham.

It should be noted that there has been some transfer of responsibilities in relation to risk management and governance to the post of Risk and Governance Manager.

Specifically, the Audit Plan for 2008/09 has been prepared after reviewing and taking into account the following:

- Audit Universe (all the potential areas of audit coverage encompassing all Council functions and activities)
- Risk assessment of potential audit areas
- Review of previous audit assignments and conclusions
- Review of risk register – specifically Strategic Risk items
- Consultation with Directors / Heads of Services / Senior Managers
- Transition Plan
- Audit Commission reports and their views on local government reorganisation
- Total Resource Availability in terms of staffing resources.

The content of the 2008/09 Plan reflects a wide range of Council activities and has been developed following consultation across all departments to ensure that changing priorities and pressures have been recognised, particularly in light of local government review and priorities contained in the Council's Transition Plan. The maintenance of a proper control environment is fundamental to delivery of services and must be the main focus of internal audit activity.

Consideration has been given to the views of the Audit Commission, particularly with respect to issues surrounding local government reorganisation and its impact on Council's within County Durham. These views are shown in **Appendix 2** and the Audit Plan 2008/09 has been developed to accommodate these issues.

It should be appreciated that there may need to be some flexibility in the Audit Plan for 2008/09 to reflect changing priorities, risks and general uncertainty for the year ahead. Efforts will be made to ensure the audit resources and activity is appropriately focused and redirected to adequately deal with new issues and matters should they materialise. For example, a successful LSVT ballot could require additional audit resource input to deal with post ballot and transfer issues.

4. RESOURCE IMPLICATIONS

- 4.1 Whilst this report has no direct implications for resources, the Plan work undertaken could highlight issues requiring action, resulting in additional costs or savings being made.

5. CONSULTATION

- 5.1 The Audit Plan has been prepared following consultation with all departments, and recognises Audit Commission requirements detailed in the Internal Audit Protocol guidance, Inspection Plan and revised Code of Audit Practice.

6. OTHER MATERIAL CONSIDERATIONS

6.1 *Links to Corporate Objectives/Values*

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

6.2 *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, thereby highlighting any risk issues capable of causing damage to the Council.

Audit efforts to embed good risk management practices around the Council also form a significant element of the Audit Plan. Of course, the full co-operation of management across the Council is essential to the maintenance of quality corporate governance, including risk management.

6.3 *Health and Safety*

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

6.4 *Equality and Diversity*

No material considerations have been identified.

6.5 *Legal and Constitutional*

The Audit Plan recognises the statutory framework associated with services and the corporate governance framework, as well as the Council's constitutional arrangements. No other legal or constitutional implications have been identified.

6.6 *Other Material Considerations*

No other material considerations have been identified.

7. OVERVIEW AND SCRUTINY IMPLICATIONS

- 7.1 There are no direct implications for Overview and Scrutiny Committees arising from this report.

8. LIST OF APPENDICES

- 8.1 Statutory Internal Audit Definitions
- 8.2 Local Government Reorganisation – Audit Commission
- 8.3 Audit Plan 2008/09

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Ward(s): Not Ward specific.

Background Papers: - Internal Audit Plan 2007/08 - Audit Committee – 23rd April 2007
- Internal Audit Plan 2007/08 – Half-Year Report - Audit Committee
5th November 2007

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 type="checkbox"/>	<input type="checkbox"/>

Statutory Internal Audit Definitions

The CIPFA definition is : Internal audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the degree to which the internal control environment supports and promotes the achievement of the organisations objectives. **It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.**

The Accounts and Audit Regulations 2006 specifies that :

Para 6

(1) A relevant body shall maintain an **adequate and effective system of internal audit of its accounting records and of its system of internal control** in accordance with the proper practices in relation to internal control, for that purpose.

(2) Any officer or member of a relevant body shall, if the body requires—

- (a) make available such documents of the body which relate to its accounting and other records as appear to that body to be necessary for the purpose of the audit; and
- (b) supply the body with such information and explanation as that body considers necessary for that purpose.

The 2006 CIPFA revised Code of Practice for Internal Audit states :

1.2 The scope of Internal Audits remit includes the organisations entire control environment. In determining where effort should be concentrated the Head of Audit should take account of the organisations assurance and monitoring mechanisms, including risk management arrangements for achieving the organisations objectives.

7.2.2 In order to compile the plan there must be a clear understanding of the organisations functions and the scale and breadth of potential audit areas

7.2.3 The Audit Plan should be fixed for a period of no longer than one year. The Plan needs to be flexible to be able to reflect the changing risks and priorities of the organisation.

Local Government Reorganisation – Audit Commission

The key issue is LGR - Councils will demise 31/3/2009 and Comprehensive Area Assessments will be undertaken thereafter.

Demising councils

Risks arise from the potential loss of staff or their interest (same applies to Members); a rush to spend balances; inappropriate decision making (particularly in relation to future commitments); a failure to safeguard and transfer assets; a breakdown in internal control and good governance and adjustments to staff terms and conditions that will either have long term financial implications (eg strain on pension fund) or will need to be revisited by the new council (eg equal pay settlement).

Setting up the new council

The new council will need good governance arrangements from the outset. These will include, standing orders; financial regulations; schemes of delegation; anti fraud policies; procedure notes; lists of authorised personnel; access controls; and accounting and other policies (such as gifts and hospitality, HR and IT). It will need to put in place arrangements at least sufficient to score 2 (meeting minimum standards) under our UoR assessment.

Business as usual

Service continuity and emergency planning will need to be in place and robust. The needs of the public, service users and staff will need to be kept at the forefront throughout. LAA targets will need to be met and partnership arrangements will need to be refreshed. Performance management will need to be all encompassing. Effective risk management must permeate all operations as change occurs.

Auditors must understand these changes, test to check that risks are being managed and offer comment on arrangements, both in relation to transition and for the new council.

<u>DEPARTMENT</u>	AUDIT MANDAYS 2007/08 PLAN	AUDIT MANDAYS 2008/09 PROPOSED	CHANGE
<u>LEISURE SERVICES</u>			
<u>Leisure Centres & Pools</u>			
Ferryhill Leisure Centre	6	10	4
Newton Aycliffe Leisure Centre	6	10	4
Spennymoor Leisure Centre	6	10	4
Shildon Sunnydale Leisure Centre	6	10	4
Fishburn Swimming Pool	4	0	(4)
Fitness Suites	3	3	0
Bars & Catering	5	10	5
	36	53	17
<u>Other Leisure Activities</u>			
Arts Development & Leisure Events	3	0	(3)
Cyber Cafes	4	0	(4)
Depot Catering	4	0	(4)
Gaming Contracts	3	0	(3)
Grants and Interest Free Loans	1	0	(1)
Green Lane Catering	4	4	0
Leisure Partnerships	2	0	(2)
Locomotion	4	0	(4)
Mobile Skate Park	1	0	(1)
Playleadership Schemes	3	0	(3)
Private/Public Sector Project Funding	2	0	(2)
Torex System	3	5	2
	34	9	(25)
<u>TOTAL</u>	70	62	(8)

<u>DEPARTMENT</u>	AUDIT MANDAYS 2007/08 PLAN	AUDIT MANDAYS 2008/09 PROPOSED	CHANGE
<u>NEIGHBOURHOOD SERVICES</u>			
<u>Regularity & Systems Audits</u>			
Building Control Trading Account	2	0	(2)
Building Regulations & Planning Fees	5	20	15
Carelink	5	15	10
Carelink Club Bus	1	0	(1)
CCTV	2	10	8
Community Telemedicine	3	0	(3)
Concessionary Fares	3	5	2
Concessionary TV Licences	5	2	(3)
Drain Rodding	5	0	(5)
Fleet Management System	3	7	4
Home Improvement Agency	5	5	0
Homelessness	5	5	0
Horticulture	2	5	3
Licensing	7	7	0
Neighbourhood Wardens	5	5	0
Outdoor Markets	3	0	(3)
Shop Improvement Grants	2	2	0
Supporting People	4	0	(4)
Trade Refuse Charges	5	10	5
Vehicle Maintenance Operation	7	0	(7)
<u>TOTAL</u>	<u>79</u>	<u>98</u>	<u>19</u>

<u>DEPARTMENT</u>	AUDIT MANDAYS 2007/08 PLAN	AUDIT MANDAYS 2008/09 PROPOSED	CHANGE
<u>HOUSING SERVICES</u>			
<u>Property Services</u>			
Central Heating Contract	3	0	(3)
Central & Fuel Stores, Maintenance Vans	11	0	(11)
Contract Management & Monitoring	6	0	(6)
Contractors' Final Accounts	20	7	(13)
Disabled Persons' Adaptations	4	0	(4)
Fire & Security Alarms Contract	2	0	(2)
Housing Maintenance System	3	0	(3)
Partnership Arrangement - Mears		25	25
	49	32	(17)
<u>Management & Rents</u>			
Disturbance & Redecoration Allowances	3	3	0
Housing Management	10	10	0
Portable Data Capture System	4	4	0
Rent Accounting	5	5	0
Rent Arrears Management/Monitoring	5	10	5
Rent Arrears Monitoring	5	0	(5)
Rent Debit Reconciliation	2	0	(2)
	34	32	(2)
<u>Other</u>			
Rechargeable Works	5	5	0
Service Improvement Plan	4	0	(4)
LSVT	0	20	20
	9	25	16
<u>TOTAL</u>	92	89	(3)

<u>DEPARTMENT</u>	AUDIT MANDAYS 2007/08 PLAN	AUDIT MANDAYS 2008/09 PROPOSED	CHANGE
<u>CHIEF EXECUTIVE</u>			
<u>Regularity & Systems Audits</u>			
Civic Car	2	0	(2)
Human Resources	5	15	10
Employment Training	12	3	(9)
Land Charges	5	5	0
Register of Interests/Hospitality	0	3	3
	24	26	2
<u>Economic Development</u>			
Business Centres	6	5	(1)
Industrial Estates	4	4	0
Industrial Promotions	2	0	(2)
Regeneration Initiatives	5	10	5
SASDA Incentives	5	0	(5)
	22	19	(3)
<u>TOTAL</u>	46	45	(1)

<u>DEPARTMENT</u>	AUDIT MANDAYS 2007/08 PLAN	AUDIT MANDAYS 2008/09 PROPOSED	CHANGE
<u>RESOURCES DEPARTMENT</u>			
<u>Income Audits</u>			
Bank Reconciliations	5	5	0
Collection Section	10	10	0
Rent Interfaces Reconciliation	2	2	0
Emergency Receipts & Receipt Books	3	3	0
Cash Offices- Green Lane	4	3	(1)
Cash Offices- Ferryhill	4	3	(1)
Cash Offices- Newton Aycliffe	4	3	(1)
Cash Offices- Shildon	4	3	(1)
Postal Remittances	4	4	0
Recurring Receipts	3	2	(1)
	43	38	(5)
<u>General Audits</u>			
Car Allowances	3	3	0
Car Leasing and Loans	1	3	2
Charges for Services	3	0	(3)
Cheque Production Controls	12	0	(12)
Council House Sales & Mortgages	4	4	0
Emergency Cheques	2	0	(2)
Financial Checks	16	10	(6)
Imprests & Floats Systems	2	2	0
Information Technology	25	10	(15)
Insurances	3	1	(2)
Inventories	1	10	9
Members Expenses	2	2	0
Parish Recharges	3	3	0
Petty Cash	1	0	(1)
Rent and Other Refunds	4	0	(4)
Rent Uprate Tests	2	0	(2)
Use of the Bailiff	3	0	(3)
VAT Return	3	3	0
	90	51	(39)
<u>Sub Total</u>	133	89	(44)
<u>Systems Audits</u>			
Capital Accounting	5	5	0
Council Tax	15	15	0
Non - Domestic Rates	14	14	0
Treasury Management	10	10	0
Accounts Payable	18	18	0
Accounts Receivable	12	12	0
Payroll & Human Resources	21	21	0
Housing Benefits	55	40	(15)
<u>Sub Total</u>	150	135	(15)
<u>TOTAL</u>	283	224	(59)

<u>DEPARTMENT</u>	AUDIT MANDAYS 2007/08 PLAN	AUDIT MANDAYS 2008/09 PROPOSED	CHANGE
<u>CORPORATE STUDIES & PROJECTS</u>			
<u>Corporate Work</u>			
Comprehensive Performance Assessment	5	0	(5)
Contract Procedure Rules	5	0	(5)
Corporate Governance	10	5	(5)
Energy Management	20	20	0
Freedom of Information & Data Protection Acts	2	0	(2)
Fraud and Corruption	0	2	2
LGR Assurance	0	40	40
NFI Data Matching Exercise	10	20	10
Performance Indicators Compliance Reviews	5	0	(5)
Performance Management	15	5	(10)
Procurement Compliance	3	15	12
Risk Management	50	5	(45)
Risk Register	5	5	0
Special Investigations	4	4	0
Statement of Internal Control / Governance	10	2	(8)
Partnership Governance	5	5	0
TOTAL	149	128	(21)
<u>AUDIT POLICY & MANAGEMENT & CONTINGENCY DAYS</u>			
<u>Chargeable Management</u>			
Audit Planning and Administration	40	60	20
Audit Management & Supervision	12	12	0
District Audit Liaison	5	0	(5)
All Departments Miscellaneous	5	0	(5)
Enterprise Investment Grants	0	3	3
Advice & Consultancy	40	10	(30)
Audit Risk Analysis	2	0	(2)
	104	85	(19)
<u>Non - Chargeable Management</u>			
Audit Manual Update	1	0	(1)
CFO Audit Sub-Group	8	8	0
CFO Risk Management Sub-Group	2	3	1
External Training Courses & Seminars	7	14	7
Internal Training Courses & Seminars	5	8	3
Audit Committee Reports / Meetings	0	5	5
Other Working Groups	0	5	5
Section Meetings	25	16	(9)
Time Management System	20	18	(2)
	68	77	9
Sub Total Management	172	162	(10)
<u>Contingency Audit Days</u>			
Contingency Days	20	0	(20)

<u>DEPARTMENT</u>	AUDIT MANDAYS 2007/08 PLAN	AUDIT MANDAYS 2008/09 PROPOSED	CHANGE
<u>TOTAL</u>	<u>192</u>	<u>162</u>	<u>(30)</u>

<u>DEPARTMENT</u>	AUDIT MANDAYS 2007/08 PLAN	AUDIT MANDAYS 2008/09 PROPOSED	CHANGE
<u>AUDIT MANDAYS TOTAL</u>			
<u>Departments & Other Areas</u>			
LEISURE SERVICES	70	62	(8)
NEIGHBOURHOOD SERVICES	79	98	19
HOUSING SERVICES	92	89	(3)
CHIEF EXECUTIVE	46	45	(1)
RESOURCES DEPARTMENT	283	224	(59)
CORPORATE STUDIES & PROJECTS	149	128	(21)
AUDIT POLICY & MANAGEMENT	192	162	(30)
<u>TOTAL</u>	<u>911</u>	<u>808</u>	<u>(103)</u>