

AUDIT COMMITTEE

Special Meeting

Monday, 2 June 2008

5.30 p.m.

Conference Room 1,
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 پوچھئے۔

AGENDA

1. **APOLOGIES**
2. **DECLARATIONS OF INTEREST**
To notify the Chairman if you have an interest in any of the following items.
3. **ELECTION OF VICE CHAIRMAN**
4. **STATEMENT OF RESPONSIBILITIES OF AUDITORS AND OF AUDITED BODIES**
Report of the Audit Commission. (Pages 1 - 20)
5. **AUDIT AND INSPECTION PLAN FOR 2008/09**
Report of the Audit Commission. (Pages 21 - 50)
6. **ANNUAL BENEFIT FRAUD REPORT - 2007/08 FINANCIAL YEAR**
Report of Director of Resources. (Pages 51 - 56)
7. **INTERNAL AUDIT SERVICE - ANNUAL REPORT 2007 - 08**
Report of Director of Resources. (Pages 57 - 80)

B. Allen
Chief Executive

Council Offices
SPENNYMOOR
22nd May 2008

Councillor D. Chaytor (Chairman) and

Councillors T. Brimm, J.G. Huntington, C. Nelson, Mrs. C. Potts and B. Stephens

B. Argyle – Independent Member

ACCESS TO INFORMATION

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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Statement of responsibilities of auditors and of audited bodies

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local services for the public. Our remit covers around 11,000 bodies in England, which between them spend more than £180 billion of public money each year. Our work covers local government, health, housing, community safety 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 seek to ensure that public services are good value for money and that public money is properly spent.

For further information about the Audit Commission, visit our website at www.audit-commission.gov.uk



Printed in the UK for the Audit Commission by Thanet Press Ltd

Design and production by the Audit Commission Publishing Team

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First published in April 2008 by the Audit Commission for local authorities and the National Health Service in England, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

General introduction

- 1 The Audit Commission (the Commission) is responsible for appointing auditors and determining their terms of appointment, as well as for preparing a Code of Audit Practice, which prescribes the way in which auditors are to carry out their functions. The Commission has prepared a Code for the audits of local government bodies and a Code for the audit of local NHS bodies. From time to time, the Commission issues guidance to auditors under section 3(8) of the Audit Commission Act 1998 (the Act) and paragraph 7 of Schedule 1 to the Act. This statement sets out guidance on general responsibilities relevant to audits in both sectors and so supports each Code.
- 2 The purpose of this statement is to assist auditors and audited bodies by summarising where, in the context of the usual conduct of an audit, the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of the audited body in certain areas. Throughout this statement, the term 'audited body' covers both the members of the body (for example, elected members in local authorities and directors of NHS bodies) and its management (the senior officers of the body).
- 3 The responsibilities of auditors are derived from statute (principally the Audit Commission Act 1998) and from the Code. Nothing in this statement is intended to limit or extend those responsibilities. In particular, audited bodies should note that, because auditors must not prejudice their independence of the audited body, the audit role does not include providing financial or legal advice or consultancy to the audited body.
- 4 Auditors may wish to refer to, and/or incorporate, this statement in audit planning documents, annual audit letters, reports and other audit outputs.

Introduction to responsibilities

- 5 Those who are responsible for the conduct of public business and for spending public money are accountable for ensuring both that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 6 In discharging this accountability, public bodies and their management (both members and officers) are responsible for putting in place proper arrangements for the governance of their affairs and the stewardship of the resources at their disposal. They are also required to report on their arrangements in their annual published statements on internal control (NHS bodies) or annual governance statement (local government bodies).
- 7 It is the responsibility of the audited body to ensure that proper arrangements are in place, but certain individuals have specific responsibilities. NHS bodies have a unitary board, consisting of executive members and part-time non-executive members, chaired by a non-executive member. The chairman and non-executive members are responsible for monitoring the executive management of the body and are responsible to the Secretary of State for the discharge of these responsibilities. In addition, there is a requirement for an audit committee, which contributes independently to the board's overall process for ensuring that an effective internal control and risk management system is maintained. The chief executive is responsible to the board for the day-to-day management of the organisation and, as accountable officer, is also responsible to the Department of Health for the proper stewardship of public money and assets.
- 8 Local government bodies have three designated statutory officers, each of whom has a specific role in relation to accountability and control. These are:
 - the head of paid service, usually the chief executive, responsible to the full council for the corporate and overall strategic management of the authority;
 - the monitoring officer, who is responsible for reporting to the authority any actual or potential breaches of the law or any maladministration, and for ensuring that procedures for recording and reporting key decisions are operating effectively; and
 - an officer with responsibility for the proper administration of their financial affairs.

- 9 In carrying out their responsibilities, auditors may wish to obtain representations from management, both orally and in writing, on important matters.
- 10 The following paragraphs summarise the responsibilities of auditors and of audited bodies in relation to the responsibilities of auditors described in the Code.

The audit of the financial statements

- 11 The financial statements, which comprise the published accounts of the audited body, 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 audited body to:
- put in place systems of internal control to ensure the regularity and lawfulness of transactions;
 - maintain proper accounting records; and
 - prepare financial statements that present fairly (or, for NHS bodies and local probation boards, give a true and fair view of) the financial position of the body and its expenditure and income and that are in accordance with applicable laws, regulations and accounting policies.
- 12 A local authority that is the administering authority for a local authority pension fund must prepare pension fund financial statements for each financial year that present fairly:
- the financial transactions of its pension fund during the year; and
 - the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.
- 13 The audited body is also responsible for preparing and publishing with its financial statements:
- for health bodies and probation boards, a statement on internal control prepared in accordance with specified guidance; and
 - for local government bodies, an annual governance statement, prepared in accordance with proper practice set out in the Chartered Institute of Public Finance and Accountancy / Society of Local Authority Chief Executives and Senior Managers publication *Delivering Good Governance in Local Government: A Framework*, and related guidance.

- 14** In preparing their financial statements, audited bodies are responsible for:
- preparing realistic plans that include clear targets and achievable timetables;
 - assigning responsibilities clearly to staff with the appropriate expertise and experience;
 - providing necessary resource to enable delivery of the plan;
 - maintaining adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements;
 - ensuring that senior management monitors, supervises and reviews work to meet agreed standards and deadlines; and
 - ensuring that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor. At local government bodies, the responsible financial officer must sign, date and certify the financial statements before they are approved by the body.
- 15** If draft financial statements and working papers of appropriate quality are not available at the agreed start date of the audit, the auditor is unable to meet the planned audit timetable and the start date of the audit will be delayed. The audit fee is calculated on the basis that the draft financial statements, and detailed working papers, are provided to an agreed timetable and are of an acceptable standard. If information is not provided to this timetable, or is provided to an unacceptable standard, the auditor will charge additional fees for any extra work that is necessary.
- 16** Auditors audit the financial statements and give their opinion, including:
- whether they present fairly, or give a true and fair view of, the financial position of the audited body and its expenditure and income for the year in question;
 - whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards;
 - for certain bodies, on the regularity of their expenditure and income; and
 - for certain bodies, on whether the part of the remuneration report to be audited has been properly prepared.
- 17** In carrying out their audit of the financial statements, auditors will have regard to the concept of materiality.

- 18 Subject to the concept of materiality, auditors provide reasonable assurance that the financial statements:
- 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.
- 19 Auditors plan and perform their audit on the basis of their assessment of risk. Auditors will examine selected transactions and balances on a test basis and assess the significant estimates and judgements made by the audited body in preparing the statements.
- 20 Subject to the concept of materiality, auditors of specified NHS bodies and local probation boards also provide reasonable assurance on the regularity of expenditure and income. In giving such assurance, auditors do not perform detailed tests of transactions to the extent that would be necessary to disclose all unlawful transactions or events that may have occurred or might occur, and the audit process should not be relied upon to disclose such matters.
- 21 Auditors evaluate significant financial systems, and the associated internal financial controls, for the purpose of giving their opinion on the financial statements. Where auditors identify any weaknesses in such systems and controls, they will draw them to the attention of the audited body, but they cannot be expected to identify all weaknesses that may exist.
- 22 Auditors review whether the statement on internal control (NHS bodies) or annual governance statement (local government bodies) has been presented in accordance with relevant requirements and report if it does not meet these requirements or if it is misleading or inconsistent with other information of which the auditor is aware. In doing so auditors take into account the knowledge of the audited body gained through their work in relation to the audit of the financial statements and through their work in relation to the body's arrangements for securing economy, efficiency and effectiveness in the use of its resources. They will also have regard to the work of other regulators, to the extent that it is relevant to auditors' responsibilities. Auditors are not required to consider whether the statement on internal control (NHS bodies) or annual governance statement (local government bodies) covers all risks and controls, nor are auditors required to express a formal opinion on the effectiveness of the audited body's corporate governance procedures or risk and control procedures.

- 23** In carrying out their work on the financial statements, auditors will:
- plan to complete work and meet agreed deadlines;
 - maintain close liaison with the audited body; and
 - provide appropriate and adequate resources and assign responsibilities to staff with the relevant expertise and experience.
- 24** Where audited bodies do not meet agreed timetables and/or provide poor documentation such that additional audit work is necessary, or the audit is delayed, auditors will charge additional fees to cover the costs incurred.

Electronic publication of the financial statements

- 25** Where the audited body wishes to publish its financial statements electronically, it is responsible for ensuring that the publication accurately presents the financial statements and the auditor's report on those financial statements. This responsibility also applies to the presentation of any financial information published in respect of prior periods. The auditor's report on the financial statements should not be reproduced or referred to electronically without the auditor's written consent.
- 26** The audited body may also wish to distribute electronic copies of the financial statements, and the auditor's report on those financial statements, to its stakeholders and must ensure that these are presented accurately. The auditor's report on the financial statements distributed electronically should not be reproduced or referred to electronically without the auditor's prior written agreement.
- 27** The examination of the controls over the electronic publication of audited financial statements is beyond the scope of the audit of the financial statements and the auditor cannot be held responsible for changes made to audited information after the initial publication of the financial statements and the auditor's report.

Responsibilities in relation to arrangements for securing economy, efficiency and effectiveness in the use of resources

- 28** It is the responsibility of the audited body 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 corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:
- establishing strategic and operational objectives;
 - determining policy and making decisions;
 - ensuring that services meet the needs of users and taxpayers and for engaging with the wider community;
 - ensuring compliance with established policies, procedures, laws and regulations;
 - identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working;
 - ensuring compliance with the general duty of best value, where applicable;
 - managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body;
 - monitoring and reviewing performance, including arrangements to ensure data quality; and
 - ensuring that the audited body's affairs are managed in accordance with proper standards of financial conduct, and for preventing and detecting fraud and corruption.
- 29** The audited body is responsible for reporting on these arrangements as part of its annual statement on internal control (NHS bodies) or annual governance statement (local government bodies).

- 30** Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In meeting this responsibility auditors should review and, where appropriate, examine evidence that is relevant to the audited body's corporate performance management and financial management arrangements, as summarised above, and report on these arrangements.
- 31** Auditors report annually their conclusion on those arrangements, having regard to the criteria specified by the Audit Commission and will report if significant matters have come to their attention that prevent them from concluding that the audited body has put in place proper arrangements. However, auditors are not required to consider whether all aspects of the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively in practice.
- 32** In planning this work, auditors consider and assess the relevant significant business risks. These are the significant operational and financial risks to the achievement of the audited body's statutory functions and objectives, which apply to the audited body and are relevant to auditors' responsibilities under the Code, and the arrangements it has put in place to manage these risks. The auditor's assessment of what is significant is a matter of professional judgement and includes consideration of both the quantitative and qualitative aspects of the item or subject matter in question. Auditors discuss their assessment of risk with the audited body.
- 33** When assessing risk auditors consider:
- the relevance and significance of the potential business risks faced by all bodies of a particular type;
 - other risks that apply specifically to individual audited bodies;
 - the audited body's own assessment of the risks it faces; and
 - the arrangements put in place by the body to manage and address its risks.

- 34 In assessing risks auditors have regard to:
- evidence gained from previous audit work, including the response of the audited body to previous audit work;
 - the results of assessments of performance carried out by the Commission;
 - the work of other statutory inspectorates; and
 - relevant improvement needs, identified in discussion with the Commission or other statutory inspectorates.
- 35 Where auditors rely on the reports of statutory inspectorates as evidence relevant to the audited body's corporate performance management and financial management arrangements, the conclusions and judgements in such reports remain the responsibility of the relevant inspectorate or review agency.
- 36 In reviewing the audited body's arrangements for its use of resources, it is not part of auditors' functions to question the merits of the policies of the audited body, but auditors may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy. It is the responsibility of the audited body to decide whether and how to implement any recommendations made by auditors and, in making any recommendations, auditors should avoid any perception that they have any role in the decision-making arrangements of the audited body.
- 37 While auditors may review audited bodies' arrangements for securing economy, efficiency and effectiveness in the use of resources, they cannot be relied on to have identified every weakness or every opportunity for improvement. Audited bodies should consider auditors' conclusions and recommendations in their broader operational or other relevant context.
- 38 Auditors are specifically required to review audited bodies' arrangements for 'monitoring and reviewing performance, including arrangements to ensure data quality'¹.

¹ *Code of Audit Practice 2005*, section 3: Auditors' responsibilities in relation to the use of resources.

- 39 The responsibility for applying data quality standards, collecting data that are fit for purpose and where appropriate conform to prescribed definitions, and reporting performance information that is reliable and accurate, rests with audited bodies.
- 40 Before performance information is reported externally or submitted to external auditors for review, it should be subject to scrutiny and approval by senior management and those charged with governance.
- 41 In order to fulfil their responsibilities under the Code, auditors will review an audited body's corporate arrangements to secure the quality of its data. This review will be informed by other relevant work, for example any detailed reviews of the data supporting specific performance information.
- 42 The findings of the review of corporate arrangements for data quality will contribute to the auditor's conclusion under the Code of Audit Practice on the audited body's arrangements to secure value for money, in relation to the specific criterion on data quality. Where weaknesses have been identified in an audited body's arrangements for data quality, the auditor will consider the overall impact on the conclusion under the Code of Audit Practice, and where appropriate make recommendations to support improvement.
- 43 Audit work in relation to the audited body's arrangements to ensure that its affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption, does not remove the possibility that breaches of proper standards of financial conduct, or fraud and corruption, have occurred and remained undetected. Nor is it auditors' responsibility to prevent or detect breaches of proper standards of financial conduct, or fraud and corruption, although they will be alert to the possibility and will act promptly if grounds for suspicion come to their notice.
- 44 The reviews arising from national studies developed by the Commission, or in support of the Healthcare Commission's national work programme, and the extent to which auditors are expected to apply them at relevant bodies, are prescribed by the Commission and are notified to audited bodies each year by the Commission in its annual work programme and by auditors in their audit planning documents. When carrying out national studies, auditors are required to follow the methodologies and, for certain studies, use comparative data provided by the Commission. Responsibility for the adequacy and appropriateness of these methodologies and the data rests with the Commission.

Specific powers and duties of auditors

- 45 Auditors have specific powers and duties under the Audit Commission Act 1998 in relation to matters of legality and, in local government, electors' rights. Fees arising in connection with auditors' exercise of these powers and duties, including costs relating to the appointment of legal or other advisers to the auditors, are borne by the audited body.

Reporting the results of audit work

- 46 Auditors provide:

- an audit planning document;
- oral and/or written reports or memoranda to officers and, where appropriate, members on the results of, or matters arising from, specific aspects of auditors' work;
- a report to those charged with governance, normally submitted to the audit committee, summarising the work of the auditor;
- an audit report, including the auditor's opinion on the financial statements and a conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources;
- a certificate that the audit of the accounts has been completed in accordance with statutory requirements; and
- an annual audit letter.

- 47 In addition, the following outputs, the need for which may arise at any point during the audit process, are issued where appropriate:

- a report dealing with any matter that the auditor considers needs to be raised in the public interest under section 8 of the Act;
- any recommendations under section 11(3) of the Act (local government bodies);
- any referral to the Secretary of State under section 19 of the Act (NHS bodies) where the auditor considers that a decision by a body or officer has led to, or would lead to, unlawful expenditure, or that some action by a body or officer has been, or would be, unlawful and likely to cause a loss or deficiency; and
- information to be reported to the Commission in a specified format to enable it to carry out any of its other functions, including assessments of performance at relevant

bodies, or to assist other bodies, such as the Healthcare Commission, the Commission for Social Care Inspection and the National Audit Office, in carrying out their functions.

- 48 When considering the action to be taken on audit reports, audited bodies should bear in mind the scope of the audit and responsibilities of auditors, as set out in the Code and as further explained in this statement. Matters raised by auditors will be drawn from those that come to their attention during the audit. The audit cannot be relied upon to detect all errors, weaknesses or opportunities for improvements in management arrangements that might exist. Audited bodies should assess auditors' conclusions and recommendations for their wider implications before deciding whether to accept or implement them.
- 49 Although annual audit letters and reports may be addressed to officers or members of the audited body, they are prepared for the sole use of the audited body. Auditors do not have responsibilities to officers or members in their individual capacities (other than in the exercise of auditors' specific powers and duties in relation to matters relating to electors' rights in local government) or to third parties that choose to place reliance upon the reports from auditors.

Ad hoc requests for auditors' views

- 50 There may be occasions when audited bodies will seek the views of auditors on the legality, accounting treatment or value for money of a transaction before embarking upon it. In such cases, auditors will be as helpful as possible, but are precluded from giving a definite view in any case because auditors:
- must not prejudice their independence by being involved in the decision-making processes of the audited body;
 - are not financial or legal advisers to the audited body; and
 - may not act in any way that might fetter their ability to exercise the special powers conferred upon them by statute.

- 51 In response to such requests, auditors can offer only an indication as to whether anything in the information available to them at the time of forming a view could cause them to consider exercising the specific powers conferred upon them by statute. Any response from auditors should not be taken as suggesting that the proposed transaction or course of action will be exempt from challenge in future, whether by auditors or others entitled to raise objection to it. It is the responsibility of the audited body to decide whether to embark on any transaction.

Access to information

- 52 Auditors have wide-ranging rights of access to documents and information in relation to the audit. Such rights apply not only to documents and information held by the audited body and its members and staff, including documents held in electronic form, but also to the audited body's partners and contractors, whether in the public, private or voluntary sectors.
- 53 There are restrictions on the disclosure of information obtained in the course of the audit, subject only to specific exemptions. The Freedom of Information Act 2000 does not apply to the Commission's appointed auditors, as they have not been designated as 'public authorities' for the purposes of that legislation. Audited bodies wishing to disclose information obtained from an auditor are required by law to seek the auditor's consent to that disclosure.

Grant claims and returns – certification

- 54 The Commission agrees to make certification arrangements in accordance with the framework set out in the separate *Statement of Responsibilities of Grant-paying Bodies, Authorities, the Audit Commission and Appointed Auditors in Relation to Claims and Returns*. The responsibility for ensuring the completion, accuracy and completeness of grant claims and returns lies with the audited body. Grant-paying bodies may require independent examination as a condition of their acceptance of claims and returns and may ask the Commission to make arrangements for auditor certification of claims and returns. The Commission will have regard to what it is appropriate, practically and professionally, to expect the certification process and auditors to do before agreeing to make certification arrangements.

Audit of charitable funds

- 55** This section is relevant to those charities to which the Audit Commission appoints auditors under s43A of the Charities Act 1993¹.
- 56** Trustees of charitable funds subject to audit have a duty to prepare financial statements for each financial year which give a true and fair view of:
- the state of the charity's affairs at the end of the financial year; and
 - the incoming resources and the application of those resources by the charity for that period.
- 57** Trustees must ensure that the financial statements are prepared in accordance with the Statement of Recommended Practice – 'Accounting and Reporting by Charities'.
- 58** It is the duty of the auditor to report to the trustees whether the financial statements give a true and fair view and whether they have been prepared in accordance with the Charities Act 1993 and the Charity (Accounts and Reports) Regulations.
- 59** Auditors are also required to report immediately to the Charity Commissioners any matter which they have reasonable cause to believe is, or is likely to be, of material significance to the Commissioners' functions under s8 (general power to institute inquiries) or s18 (power to act for protection of charities) of the 1993 Act. Such matters may relate not only to the activities or affairs of the charity, but also to any institution or body corporate which is connected with the charity.
- 60** The audit fee is calculated on the basis that detailed working papers, and other specified information, are provided to an agreed timetable. Where audited bodies do not meet agreed timetables and/or provide poor documentation such that additional audit work is necessary, or the audit is delayed, auditors will charge additional fees to cover the costs incurred.

¹ S43A of the Charities Act 1993 prescribes that all English NHS charities shall, at the election of the Audit Commission, be subject to an independent examination or audit. The Commission has decided that it will require an audit for all those charities above the threshold of £500,000, as defined in s43. Those below this threshold will be subject to an independent examination, unless the trustees elect for an audit. The auditor or examiner appointed must then follow the procedures required under s43(7)(b) of the Charities Act. Where an independent examination is carried out, the responsibilities of the examiner are more limited.

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Audit and Inspection Plan

Date

Last saved: 22/05/2008 11:19:00

Audit and Inspection Plan

Sedgefield Borough Council

Audit 2008/09

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

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

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

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

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

Document Control

Author Sarah Diggle

Filename Audit and Inspection Plan-SBC 2008-09.doc

Status of our reports

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

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

Copies of this report

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Introduction

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

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Responsibilities

- 5 We comply with the statutory requirements governing our audit and inspection work, in particular:
 - the Audit Commission Act 1998;
 - the Local Government Act 1999; and
 - the Code of Audit Practice.
- 6 The Code of Audit Practice (the Code) defines auditors' responsibilities in relation to:
 - the financial statements (including the annual governance statement); and
 - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 7 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies (from April 2008) sets out the respective responsibilities of the auditor and the Council. The Audit Commission has issued a copy of the Statement to every audited body.
- 8 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and our audit work is undertaken in the context of these responsibilities.

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Fees

- 9 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2008/09. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 10 The total indicative fee for the audit and inspection work included in this audit and inspection plan for 2008/09 is for £129,000, which compares to the planned fee of £116,330 for 2007/08
- 11 A summary of this is shown in the table below. The fee is determined by audit risks identified, mandated work and basic assumptions. A detailed breakdown of the audit and inspection fee is included in Appendix 2.

Table 1 Audit fee

Audit area	Planned fee 2008/09	Planned fee 2007/08	Page
Audit fee	£119,737	£104,100	9
Inspection fee	£9,263	£12,230	13
Total Audit & Inspection fee	£129,000	£116,330	
Certification of claims and returns	£14,510	£18,500	20

- 12 While the planned fee has increased between years, this is primarily a reflection of the significant audit risks attached to LGR and the Council's proposed LSVT of its housing stock. Despite making resource provision within the plan to address these issues, the fee proposed for 2008/09 is only +3 per cent compared to the Audit Commission fee scale for Sedgfield Borough Council which is £115,800. Indeed, if it were not for the need to accommodate these one-off, extraordinary items within the plan the fee would have reduced. The +3 per cent variation is well within the normal level of variation specified by the Commission.
- 13 In setting the fee, we have assumed that:
- the level of risk in relation to the opinion and VFM conclusion will increase as the demise of the Council draws ever closer. This view is based on experiences of other local government reorganisations. Common problems have included increased risks of breakdown in internal controls, poor value for money and fraud and corruption;
 - internal audit undertakes appropriate work on all systems that they identify as high risk; and

- good quality working papers and records will be provided to support the financial statements in accordance with our Working Together protocol.

Further details of the assumptions are outlined in Appendix 2.

- 14 The Audit Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Audit Commission may, therefore, adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and complexity at a particular body.
- 15 It is a matter for the auditor to determine the work necessary to complete the audit and, subject to approval by the Audit Commission, to seek to agree an appropriate variation to the scale fee with the Council. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards). This fee then becomes payable.
- 16 In order to deliver our responsibilities to give a value for money conclusion, we will need to monitor how the transition to a new unitary authority impacts upon the Council's governance arrangements in 2008/09. In particular we will need to:
 - review the council's actions taken to mitigate the risks arising from LGR;
 - monitor the delivery of the council's identified actions; and
 - consider any additional work which may need to be undertaken to deliver our responsibilities.
- 17 We have included a modest initial sum in the audit and inspection plan of each district council in County Durham to carry out additional work associated with LGR. This is an initial estimate of the additional fee required, but this will be revised during the year as the nature and extent of our audit work in this area becomes apparent. In this event we will follow the process outlined in paragraph 21 below, for agreeing changes in our fees.
- 18 There will also be additional risks arising from the proposed transfer of the Council's housing stock to Sedgefield Borough Homes, if the tenant's ballot in July 2008 delivers a positive result.

Specific actions Sedgefield Borough Council could take to reduce its audit fees

- 19 The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit fees. We have regular meetings with officers to ensure that any issues arising from the closure of the accounts and preparation of the final statements are addressed in a timely manner thereby keeping any possible fee increase to a minimum. We would expect to continue that approach for the coming year.

- 20 In addition we have agreed a protocol ('Working Together'), which illustrates how the Council can help us mitigate fees in 2008/2009 and implementation of these joint working arrangements is assumed in the proposed fees.

Process for agreeing any changes in audit fees

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

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Auditor's report on the financial statements

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

Financial statements

- 23 We have not undertaken a risk assessment for our audit of the financial statements as many of the specific risks which may become apparent after we have completed our 2007/08 audit. A separate opinion plan for the audit of the financial statements will be issued in December 2008.
- 24 At this stage we are aware of the following risks that are likely to impact on my audit of the financial statements:
- potential changes to the experience and knowledge of staff available to produce the financial statements following transfer of responsibility to the new unitary authority;
 - possible weaknesses in internal controls resulting from secondments and leavers as a result of LGR;
 - the Council is intending to transfer its housing stock to a RSL on 31 March 2009; this will involve complex and high value accounting transactions, and
 - the Council are forming a regeneration company to deliver private sector housing renewal. There is a risk that they will need to prepare group accounts for the first time in 2008/2009.
- 25 The adoption of International Financial Reporting Standards (IFRS) is not required by local government bodies in 2008/09. However, there may be a requirement to prepare whole of government accounts (WGA) consolidation packs on the basis of IFRS. Further guidance is awaited.

VFM conclusion

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

Table 2 Key risks identified

Key risks identified	Planned work to address the risk
Risks arising from the potential loss of staff leading to potential breakdown in internal control and good governance arrangements.	Review the actions taken by the council to mitigate the risks and report as necessary.
Service continuity will be at risk during the transition. Performance management and risk management must be especially robust during the change period.	Review and comment on risk and performance management arrangements.
The Council is intending to transfer its housing stock to a RSL before LGR in April 2009 but the ballot isn't scheduled until July 2008 so there are significant business risks of this not being completed or key activities needed to facilitate a successful transition being overlooked.	Review the Council's project management arrangements for LSVT.
The Council has entered into a partnership with a construction firm for all of their housing maintenance work, also covering capital investment. There is a risk that internal control will be insufficient and VFM poor if the client doesn't specify the contract and monitoring arrangements well.	Review the contract and monitoring arrangements for housing maintenance work.

Use of Resources

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

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Mandated work

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

- data quality; and
- whole of government accounts.

Appendix 1 highlights the work to be undertaken.

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CPA and inspection

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

Table 3 Summary of inspection activity

Inspection activity	Reason/impact
CAAL role (incorporating previous Relationship Manager functions)	To act as the Commission’s primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Direction of Travel (DoT) assessment	<p>An annual assessment, carried out by the CAAL, of how well the Council is securing continuous improvement. The DoT assessment will be reported in the Annual Audit and Inspection Letter. The DoT assessment summary will be published on the Commission’s website.</p> <p>In all the County Durham district councils, we will consider how best to carry out our DoT in 2008/09. We may combine work to assess individual councils with some assessment of Direction of Travel issues across the county. We will also discuss reporting arrangements for the Direction of Travel before the transition to the new unitary council. We will discuss</p>

	<p>these points with you nearer the time of the assessments, which are planned for September 2008 to February 2009.</p>
<p>Sustainable communities inspection</p>	<p>A county-wide inspection of all eight existing councils together of 'sustainable communities'. We will work with you to scope this inspection, which could include strategic planning, strategic housing, environmental, transport and economic development issues.</p>

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Advice and assistance

- 35 We have powers to provide 'advice and assistance' (A&A) to another public body where this is requested.
- 36 If you wish the Commission to provide additional services under these powers, please contact Janet Gauld, our regional lead on A&A (j-gauld@audit-commission.gov.uk) or Paul Heppell.

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The audit and inspection team

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

Table 4 Audit and inspection team

Name	Contact details	Responsibilities
Marion Talbot CAAL	m-talbot@audit-commission.gov.uk 0191 4602022	The primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Steve Nicklin District Auditor	s-nicklin@audit-commission.gov.uk 0191 4602022	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive and audit committee.
Paul Heppell Audit Manager	p-heppell@audit-commission.gov.uk 0797 1670189	Manages and co-ordinates the different elements of the audit work. Key point of contact for the Director of Resources.

Quality of service

- 38 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact the District Auditor in the first instance. Alternatively, you may wish to contact the Head of Operations for the North East, Yorkshire and Humberside, David Allsop.
- 39 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet '*Something to Complain About*', which is available from the Commission's website or on request.

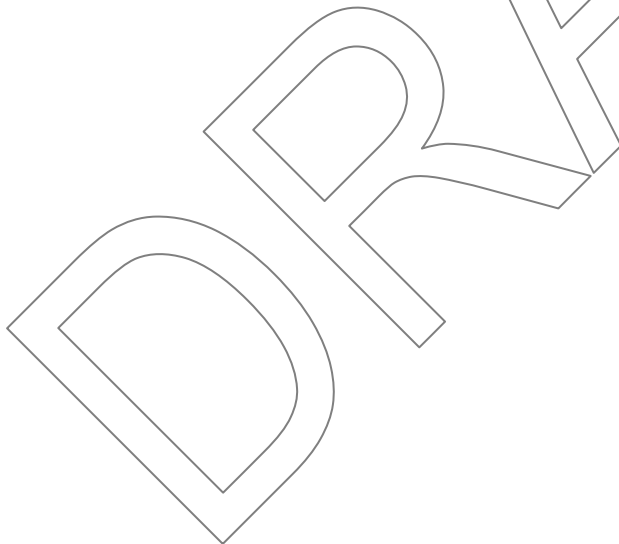
Planned outputs

- 40 Reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Table 5 Planned outputs

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

* reflects those reports due to be issued after LGR vesting day



Appendix 1 – Elements of our work

Financial statements

- 1 We will carry out our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 2 We are required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Council as at 31 March 2009 and its income and expenditure for the year.
- 3 We are also required to review whether the Annual Governance Statement has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the Annual Governance Statement is misleading or inconsistent with our knowledge of the Council.

Value for money conclusion

- 4 The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires the auditor to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at our conclusion.
- 5 In meeting this responsibility, we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators, we will normally place reliance on their reported results to inform our work.
- 6 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

Use of resources assessment

- 7 The Use of Resources themes and KLOEs are outlined below.
- 8 We will arrive at a score of 1 to 4, based on underlying key lines of enquiry, for each of the following themes:

Theme	Description
Financial reporting	<ul style="list-style-type: none"> • preparation of financial statements • external reporting

Theme	Description
Financial management	<ul style="list-style-type: none"> • medium-term financial strategy • budget monitoring • asset management
Financial standing	<ul style="list-style-type: none"> • managing spending within available resources
Internal control	<ul style="list-style-type: none"> • risk management • system of internal control • probity and propriety
Value for money	<ul style="list-style-type: none"> • achieving value for money • managing and improving value for money

- 9 We will report details of the scores and judgements made to the Council. The scores will be accompanied, where appropriate, by recommendations of what the Council needs to do to improve.
- 10 The auditor's scores are reported to the Commission and are used as the basis for its overall use of resources judgement for the purposes of the CPA.

Data quality

- 11 Our data quality work is based on a three-stage approach covering:
 - Stage 1 – management arrangements;
 - Stage 2 – analytical review; and
 - Stage 3 – risk-based data quality spot checks of a sample of performance indicators.
- 12 Work will be focused on the overall arrangements for data quality, particularly on the responsibility of the Council to manage the quality of its data including data from partners where relevant.
- 13 The Audit Commission has specified that two housing benefit service indicators will be subject to audit as part of the stage 3 spot checks. To avoid duplication and maximise efficiencies between different elements of the audit, this approach has been planned so that we can draw on this work in conducting the later certification of the Council's Housing Benefit & Council tax claim. As a result, our planned fee for auditing the Council's grant claims has reduced.

- 14 The increase in our fee estimate for data quality reflects both this additional work and our assessment of risk in an LGR environment. While the Council's data quality arrangements have been robust and effective in our previous assessments, LGR will both test these arrangements and increase the need for good data quality. This risk assessment may change depending on our assessment of your overall management arrangements at stage 1 and we will update our plan accordingly, including any impact on the fee.

Whole of government accounts

- 15 We will be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office. The 2008/09 WGA consolidated pack may need to be produced in accordance with the International Financial Reporting Standards (IFRS) and further guidance is awaited.

National Fraud Initiative

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

Certification of grant claims and returns

- 17 We will continue to certify the Council's claims and returns on the following basis:
- claims below £100,000 will not be subject to certification;
 - claims between £100,000 and £500,000 will be subject to a reduced, light-touch certification; and
 - claims over £500,000 will be subject to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced certification approach for these claims.
- 18 As highlighted above our planned fee for auditing the Council's grant claims has reduced. We will utilise information and assurances gained from our audit of two housing benefit performance indicators, carried out as part of our data quality assessment, in order to reduce the time required to audit the Council's Housing Benefit & Council tax claim.

Appendix 2 – Basis for fee

- 1 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is coordinated with the work of other regulators, and that our work helps you to improve.
- 2 The risk assessment process starts with the identification of the significant financial and operational risks applying at the Council with reference to:
 - our cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
 - interviews with Council officers;
 - liaison with internal audit; and
 - the results of other review agencies' work where relevant.

Assumptions

- 3 In setting the fee, we have assumed that:
 - the level of risk in relation to the audit of the financial statements is significantly higher than in previous years due to LGR and LSVT;
 - you will inform us of significant developments impacting on our audit;
 - internal audit will continue to meet the appropriate professional standards;
 - good quality working papers and records will be provided to support the financial statements by 30 June 2009 (albeit this activity will occur after the LGR vesting date);
 - requested information will be provided within agreed timescales; and
 - prompt responses will be provided to draft reports; and
 - additional work will not be required to address questions or objections raised by local government electors.
- 4 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the opinion audit plan.
- 5 Changes to the plan will be agreed with you. These may be required if:
 - new residual audit risks emerge;
 - additional work is required by the Audit Commission or other regulators; or

- additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.
- 6 Below is a detailed breakdown of the audit and inspection fee for 2008/09.
- 7 The fee (plus VAT) will be charged in 12 equal instalments from April 2008 to March 2009.

Table 6 Detailed audit and inspection fee

Audit area	Planned fee 2008/09	Planned/Actual fee 2007/08	Page
Audit			
Financial statements *increase reflects additional time required in respect of LGR and LSVT audit risks.	89,679	76,200	9
Use of Resources	12,391	18,975	9
Data Quality *increase reflects importance of good data quality in LGR environment and Audit Commission specification that two housing benefit service indicators will be subject to audit.	14,941	6,700	19
Whole of government accounts and NFI	2,726	2,225	20
Total audit fee	119,737	104,100	
Inspection			
Relationship management	2,986	2,950	13
Direction of Travel	2,986	2,950	13
Service inspection	3,291	6,330	14
Total inspection fee	9,263	12,230	
Total audit and inspection fee	129,000	116,330	
Certification of claims and returns *decrease reflects assurances that are expected to be drawn from data quality work in respect of housing benefit claim certification.	14,510	18,500	20

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

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor’s responsibilities
<p>LGR typically involves numerous use of resources risks including:</p> <ul style="list-style-type: none"> Increased staff turnover and key vacancies leading to a breakdown in internal control; misappropriation of assets, especially ICT; a rush to spend money resulting in poor value for money; and transitional arrangements for governance and business continuity. 	<p>There is a good transition agreement designed to effectively manage this high risk with an independent project manager appointed and transitional governance arrangements in place.</p> <p>The Council’s Internal Audit plan for 2008/09 reflects LGR as the primary risk and provides for audit coverage of the principle risk areas.</p>	<p>Yes</p>	<p>We will track LGR preparations, through meetings, review of minutes and enquiry into issues arising at other reorganised authorities.</p>	<p>All aspects of the VFM Conclusion to be given by 30 September 2009 and 2008 UOR assessment (especially themes 4.2, 4.3, 5.1 and 5.2)</p>

<p>The Council is intending to transfer its housing stock to a RSL before LGR in April 2009 but the ballot isn't scheduled until July 2008 so there are significant business risks of this not being completed or key activities needed to facilitate a successful transition being overlooked.</p>	<p>The Council will be using experienced legal and financial consultants on the LSVT and the Director of Resources has experience of LSVT at another authority. The Council's Internal Audit plan for 2008/09 reflects LSVT as a risk and includes time to review this area.</p>	<p>Yes</p>	<p>We will use an LSVT specialist to review project management following the tenant's ballot.</p>	<p>Financial standing aspects of the VFM Conclusion (30/9/09) and 2008 UOR assessment.</p>
<p>The Council has entered into a partnership with a construction firm for all of their housing maintenance work. There is a risk that internal control will be insufficient and VFM poor if the client doesn't specify the contract and monitoring arrangements well.</p>	<p>As part of the letting process the Council have had regard to expected contractual and monitoring arrangements.</p>	<p>Yes</p>	<p>Review the housing maintenance contract and the arrangements in place for monitoring compliance.</p>	<p>Internal control and VFM aspects of the VFM Conclusion (30/9/09) and 2008 UOR assessment.</p>

<p>The significant change in the contracting arrangement in respect of housing maintenance work could impact upon the Council's calculation against its VAT de-minimus threshold.</p>	<p>The Council use VAT consultants.</p>	<p>Yes</p>	<p>We will use a taxation specialist to review the de-minimus calculation and check the threshold hasn't been exceeded.</p>	<p>Financial standing criteria of the VFM Conclusion for 2008/2009.</p>
<p>The adoption of International Financial Reporting Standards (IFRS) is not required by local government bodies in 2008/09. However, there may be a requirement to prepare whole of government accounts (WGA) consolidation packs on the basis of IFRS.</p>	<p>Finance staff are aware of the issue. The 2008/09 return for whole government accounts may require some restating to be IFRS compliant.</p>	<p>Yes</p>	<p>Understanding of the requirements and review of closedown arrangements for WGA.</p>	<p>Opinion on the Whole of Government submission pack</p>

Appendix 4 – Independence and objectivity

- 1 We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 2 We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised below.
- 3 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 4 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 5 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
 - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
 - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 6 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 7 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.
- 8 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.
- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.
- The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

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Appendix 5 – Working together

- 9 We have recently agreed a separate 'Working together' protocol, which sets out arrangements for meetings, liaison and co-ordinated working in the run-up to LGR.

Sustainability

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

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Item 6

AUDIT COMMITTEE

2nd June 2008

REPORT OF THE DIRECTOR OF RESOURCES

Portfolio: SOCIAL REGENERATION AND PARTNERSHIP

ANNUAL BENEFIT FRAUD REPORT - 2007/08 FINANCIAL YEAR

1. SUMMARY

- 1.1 The purpose of the Report is to review the results of investigating allegations of Housing and Council Tax benefit fraud during the 2007/08 Financial Year.

2. RECOMMENDATION

- 2.1 To note the progress in investigating alleged benefit fraud during the 2007/08 financial year.

3. BACKGROUND

- 3.1 Sedgefield Borough Council is committed to preventing and detecting fraud. The Council recognises that benefit fraud in particular is difficult to prevent and subsequently detect, without the assistance of the public and data matching with other agencies.
- 3.2 The Council's approach is in line with the national position with the Government through the Department of Work and Pensions (DWP) strongly promoting the need to investigate and appropriately punish cases of fraud. This has been made harder for local authorities, however, with the withdrawal of specific financial rewards for the issuing of sanctions and also an annual reduction in administration grant. The message still remains a strong one and it is not expected that reductions in financial support will diminish the strong push against fraud.
- 3.3 Therefore, a reduction in the level of fraud remains one of the Benefits Section's key priorities.

Staffing

- 3.4 A dedicated Benefit Fraud Team form an important part of the Council's Benefit Services consisting of the following Officers:
- Senior Benefits Officer (Fraud and Investigations)
 - Investigations Officers (2)
 - Clerical Assistant

In addition to the Dedicated Fraud Team, the Senior Benefits Officer (Fraud and Investigations) is also responsible for 2 Interventions Officers who review benefit claims during the year and undertake home visits and postal checks. From April 2007 they have also been involved in assisting the Section to achieve the Government's target for the Council to reduce the amount of fraud and error in benefit claims.

DWP Performance Standard

- 3.5 The target set for this Council in 2007/08 by the DWP was to find reductions in benefits from 6880 claims within the present caseload of approximately 11,500 claimants. As a result of the loss of personal data between Government departments in autumn 2007, the reductions target was revised from 6880 to 3150. This was based on results for the first 6 months. The Section achieved 3248 reductions resulting in a top rating of 4 being achieved in terms of the DWP Performance Standards.

No Housing Benefit Matching Service referrals were received since December 2007, due to the data exchange problems. This is expected to be resolved by the end of May 2008.

The performance measure for reductions has been removed in 2008/09 following the introduction of a limited number of new National Indicators of which only 2 relate to the whole of the benefits service.

Policy

- 3.6 A Benefit Anti-Fraud Policy is in place to ensure a consistent and rigorous approach is followed to prevent and detect fraud.

Sanctions

- 3.7 As well as ensuring that arrangements are made to ensure that the overpayments will be recovered, the Policy states that specific outcomes, known as sanctions, can be imposed on claimants who have submitted fraudulent benefit claims.

There are a number of different sanctions available to the Council following a successful investigation namely:-

- Prosecution
- Issue of a formal caution
- Issue of an administration penalty (fine)

4. OUTCOME OF INVESTIGATIONS

- 4.1 During the 2007/08 financial year, the Investigations Team received 671 cases (780 previous year) of suspected fraud following anonymous letters and telephone calls from the public, mainly using the Benefits Fraud Hot Line (0800 783 0050), tip offs from other Departments and data matching information from other agencies. The Team were able to investigate a total of 505 cases (607), including 186 (226) received from the Housing Benefit Matching Service.

- 4.2 In respect of 345 (420) of the cases investigated, sufficient evidence was obtained to confirm that a total value of £295,957 (£399,689) fraudulent overpayments had been made, of which only £30,821 (10.4%) (£34,273 (8.6%)) remains to be paid.
- 4.3 These investigations have resulted in the issue of 87 (46) sanctions being issued in accordance with the Council's Sanctions Policy, including 13 (10) prosecutions, 69 (21) cautions and 5 (15) administration penalties, details of which are as follows.

Prosecutions

During the year 13 (10) claimants were successfully prosecuted for having made fraudulent claims totalling of £47,513 (£24,799). The Court sentences included fines of up to £400 in respect of 6 cases (2), community service orders of up to 12 months were imposed in 2 cases (3), including 1 who was ordered to undertake 150 hours unpaid work, in 3 cases (5), conditional discharges of up to 12 months were imposed and in 2 (nil) cases, 18 and 12 months supervision orders were also imposed.

The overpayments are being recovered, usually on a weekly basis or from a reduction to an ongoing benefit entitlement. One offender did make a repayment of £5,430 (£2,896) in full.

Cautions

There were 69 (21) Cautions were issued in accordance with the Council's Sanctions Policy in respect of £54,807 (£15,006) fraudulent claims.

Penalties

There were also 5 (15) Administrative Penalties were issued in accordance with the Council's Sanction Policy in respect of £5,542 (£13,496) fraudulent claims. The total value of the Penalties imposed amounted to £1,662 (£4,049) i.e. 30% of the value of the fraudulent overpayment.

- 4.4 The types of fraud committed included:
- undeclared tax credits, work, income or capital,
 - claiming income support or job seekers allowance when working,
 - couples living together but claiming to be in a single person household, and
 - "Non-residencies" where people claim to be living in a property but live elsewhere.
- 4.5 Joint working with the Department for Work and Pensions (DWP) is still ongoing and has been working well throughout the year with 2 (2) successful prosecutions undertaken on our behalf by the DWP solicitors and 3 (3) Joint Cautions and no (1) Administrative Penalties were issued during that year. These figures are included in paragraph 4.3 above. There are a further 29 joint working cases in progress, where an interview under caution has been conducted and a sanction expected on each case.
- 4.6 During the year there were 6 (4) directed surveillance activities undertaken by the Fraud Team as part of our joint working arrangements with the DWP. These were carried out in accordance with the Regulation of Investigatory Powers Act 2000

(RIPA) regulations. Of these cases, 4 led to sufficient evidence been gathered to allow the potential fraudulent claimant to be formally interviewed by the Fraud Team. As a result the benefits paid to 4 claimants have been withdrawn and sanctions imposed in accordance with the Council's Sanctions Policy.

- 4.7 The bi-annual data matching exercise undertaken by the Audit Commission, the NFI (National Fraud Initiative) commenced in January 2007. This involved information being sent to local authorities to highlight possible discrepancies in benefit claims. All of the cases referred to the Council have been looked at and 21 cases investigated in 2007/08. This exercise has now been fully completed and although no sanctions were issued, total overpayments of benefits amounting to £2,044.45 were identified in respect of 3 claimants.
- 4.8 A joint operation was also undertaken in the year between the fraud investigation team, the Taxi Licensing Section, the Vehicle and Operator Services Agency (VOSA), HM Revenue and Customs and Durham Constabulary. Operation "Taxi Check" involved 2 police vehicles patrolling Sedgefield Borough and pulling over taxis and mini buses. The vehicles were directed to Chilton Depot where all the parties involved carried out their checks. This resulted in 5 potential fraudulent Benefit cases being identified and further investigations are ongoing.

5. RESOURCE IMPLICATIONS

- 5.1 It is estimated that the Council granted approximately £32.5m (£31m) housing benefits during the 2007/08 financial year and will be able to claim that entire sum from the DWP.
- 5.2 This includes an allowance for overpaid benefits. This means that if the authority is successful in recovering the overpayments then there is a financial benefit to the authority.
- 5.3 The amount of benefit fraud identified during the financial year represents less than 0.9% (1.3%) of the total value of benefits granted during that period.
- 5.4 The total direct cost to the Council of providing the Fraud Team during 2007/08 was £85,534 (£84,331), excluding the costs of the Interventions Officers, supervision, support service costs, office accommodation etc. Indirectly, all the Benefit Assessors are also constantly vigilant to the potential of fraudulent claims being made against the Council and will refer cases to the Fraud Team on occasions when their suspicions are aroused.
- 5.5 As the Government provides a formula-based Administration Grant to the Council to meet the costs of providing a local Benefit Service within its area which must include the provision of a fraud prevention and detection activity, and as the authority contains its total costs within the funding provided by the government, there is no cost falling on the Borough Council for this service. It is for the Council to determine the appropriate staffing resources to be allocated to either the processing of claims (for which national performance standards and targets are set and measured) and/or to deal with the prevention and detection of fraud.

5.6 The Government does suggest that, as a guide, they expect local authorities to direct around a third of their total allocation to the “security of benefits” through effective reviews, visits and counter-fraud investigations.

5.7 The total Administration Grant received from the Government during 2007/08 was £992,624 (£1,035,468) meaning that the cost of providing the fraud service within the Borough is significantly lower than that expected by central government making the performance all the more commendable.

6. CONSULTATION

6.1 The Council is regularly in discussions with other agencies and other local authorities to consider best practice in the prevention and detection of fraud.

OTHER MATERIAL CONSIDERATIONS

7. LINKS TO CORPORATE OBJECTIVES/VALUES

7.1 The prevention and detection of housing benefit fraud meets the Council’s Corporate Values of:

- Being responsible with and accountable for public finances
- Taking into account crime

8. RISK MANAGEMENT

8.1 It is important that adequate and suitable arrangements are made to prevent the risk of fraudulent claims being made against the Council.

9. HEALTH AND SAFETY

9.1 Arrangements are made to minimise the risk to the health and safety of Officers when carrying out their investigations.

10. EQUALITY AND DIVERSITY

10.1 The present Policy is under review following the introduction of new legislation to prevent age discrimination.

11. LEGAL AND CONSTITUTIONAL

11.1 There are no new Legal or Constitutional issues arising from this report.

12. CRIME AND DISORDER

12.1 It is important that the Council makes reasonable arrangements to detect and prevent fraudulent Benefit claims being made.

Contact Officer: Andrew Hunter, Senior Benefits Officer (Visiting and Investigations)
Telephone No.: (01388) 824106
E-Mail Address: ahunter@sedgefield.gov.uk

Ward(s): Not Ward Specific
Key Decision Validation: Not a key decision
Background Papers: None
Appendices None

Examination by Statutory Officers:

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

Item 7

AUDIT COMMITTEE

2nd JUNE 2008

REPORT OF DIRECTOR OF RESOURCES

Portfolio: STRATEGIC LEADERSHIP

Subject: INTERNAL AUDIT SERVICE – ANNUAL REPORT 2007-08

1. SUMMARY

- 1.1 The requirement for an Internal Audit function derives from local government legislation, including section 151 of the Local Government Act 1972 which requires authorities to “make arrangements for the proper administration of their financial affairs”. Proper administration includes Internal Audit. More specific requirements are detailed in the Accounts and Audit Regulations 2006, in that a relevant body must “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”.
- 1.2 The Internal Audit Plan for 2007-08 year was considered and approved by the Audit Committee on 23rd April 2007 (Minute ref: AC.32/06). A half-yearly report on the work undertaken was considered by the Audit Committee on 5th November 2007 (Minute ref: AC.15/07). This report provides performance information for the full year, with details of specific areas of work undertaken in the second half of the year. The report has been prepared in accordance with standards defined in the CIPFA Code of Practice for Internal Audit in Local Government 2006.

2. RECOMMENDATIONS

It is recommended that:

- 2.1 Audit Committee notes the contents of the Internal Audit Service Annual Report 2007-08.

3. AUDIT ACTIVITY APRIL 2007 TO MARCH 2008

3.1 Background

- 3.1.1 Senior managers within each department are responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal Audit review, appraise and report on the effectiveness of the system of internal control. The Audit Committee is responsible for obtaining assurance in respect of the control environment, part of which comes from the work and opinion of Internal Audit.

3.2 Annual Audit Plan

- 3.2.1 The Internal Audit Section produces an Annual Audit Plan based on an assessment of risks in relation to audit areas and allocates its resources accordingly. The approved Audit Plan for 2007-08 scheduled a total of **911** days for the full year. Actual audit work carried out during the year totalled **805** days, resulting in a shortfall of 106 days less than planned.
- 3.2.2 The reason for the shortfall in audit days is that the Internal Audit Section has been operating with staffing vacancies during the year. As a consequence, audit work was prioritised during the year with greater emphasis given to areas of higher risk to ensure that Internal Audit was able to complete work in these areas and provide a sufficient opinion on the adequacy of the control environment.
- 3.2.3 The programme of regularity audit for 2007-08, which forms the core of the Audit Plan, has been substantially completed. Those areas not reviewed during the year included some aspects of services primarily within Housing, Leisure and Neighbourhood Services Departments.
- 3.2.4 There were **59** formal audit reports issued during the period with **25** confirming that there were satisfactory arrangements in place.
- 3.2.5 Within the **34** reports issued where recommendations had been made there were a total of **43** classified as being of '**high**' importance, and **19** of '**medium**' importance.
- 3.2.6 All recommendations were made following detailed discussions and with the agreement of the appropriate service managers.

3.3 Audit Opinion

- 3.3.1 **Appendix A** provides a brief summary of actual audit work carried out and of matters identified as part of the work undertaken by the Internal Audit Section. These items are intended to give a flavour of the wide range of activities covered by the Audit team and the matters that may arise from the work performed. Members will note that the appendix shows that positive progress has been made in the resolution of the matters highlighted.
- 3.3.2 Based on the work undertaken during the year and the implementation by management of audit recommendations, Internal Audit can provide **reasonable assurance** that the Council's systems of internal control were operating adequately and effectively during 2007-08. There are **no** qualifications to this opinion.
- 3.3.3 The above opinion is derived from audit work undertaken, both planned and unplanned, which is detailed in **Appendix A**. Other sources of information, such as Audit Commission reports have also been taken into consideration where appropriate. Specifically, the level of assurance takes into account:

- All audit work completed in 2007-08;
- Follow up actions from previous years' audits;
- Management responses to findings and recommendations;
- Effects of significant changes in Council systems;
- Whether or not limitations have been placed on the scope of Internal Audit;
- Extent of resources available to deliver the audit plan;
- Quality of Internal Audit Service performance.

3.3.4 There are no issues identified of such significance as to require disclosure in the Council's Annual Governance Statement for 2007-08.

3.4 Code of Practice for Internal Auditors

3.4.1 In 2006, CIPFA issued a revised Code of Practice for Internal Audit which further emphasised the importance of internal audit to the proper management of the Council. The Code of Practice provides details of 11 professional standards - shown below - with associated checklists and criteria covering all aspects of the internal audit function:

- Standard 1 – Scope of Internal Audit
- Standard 2 – Independence
- Standard 3 – Ethics for Internal Auditors
- Standard 4 – Audit Committees
- Standard 5 – Relationships
- Standard 6 – Staffing, Training
- Standard 7 – Audit Strategy and Planning
- Standard 8 – Undertaking Audit Work
- Standard 9 – Due Professional Care
- Standard 10 – Reporting
- Standard 11 – Performance, Quality and Effectiveness

3.4.2 Internal Audit regularly reviews its service against the Code of Practice, which contains just under 200 individual criteria, to ensure continued compliance. The latest assessment undertaken in April 2008 indicates that Internal Audit continues to be effective and sufficiently compliant with the requirements of the CIPFA Code of Practice to ensure that the opinion given in this Annual Report can be relied upon for assurance purposes.

3.4.3 In order to focus on areas of development, **Appendix B** identifies those areas of partial or non-compliance with the Code, which amount to only 20 individual criteria out of a total of just under 200. These areas are not those considered to have a material impact on the effectiveness of the service.

3.5 Quality Assurance Programme and Performance Management

3.5.1 Audit work is governed by standards set out in the Code of Practice for Internal Audit and the Audit Section’s own Audit Manual. All audits are subject to ongoing supervisory input throughout all stages of audit fieldwork and are subject to a two stage review; firstly, by Principal Auditors and secondly, by the Audit and Resources Manager. This quality review process ensures that work is carried out to an acceptable standard and in line with the CIPFA Code of Practice. Some of the key features of the quality review and assurance process are as follows:

- An up to date internal audit manual provides direction to all auditors in carrying out day to day audit work
- Work is carried out by auditors with appropriate experience and skills
- All audit work is supervised, monitored and quality assessed
- Key performance indicators have been devised for monitoring performance
- User feedback is requested after each planned audit assignment

3.5.2 During 2007-08 the Internal Audit Section has continued to tailor its Internal Audit Manual for use by all auditors. The Terms of Reference (or Audit Charter) has been reviewed and approved for the section by the Audit Committee. The Section has also spent time reviewing and developing its own processes.

3.5.3 A range of performance measures is maintained covering the work of the audit team. The outturn performance for a range of selected indicators is as follows:

No.	Performance Measure	2007-08 Target	2007-08 Outturn
1.	Percentage of overall audit plan completed in year	95%	88%
2.	Percentage of audit recommendations accepted by client	100%	100%
3.	Percentage of planned audit assignments on ‘core financial systems’ completed in year	100%	100%
4.	Average customer satisfaction rating received [1]	4 = Good	4 = Good
5.	Average sickness absence per employee [2]	5	0.7
6.	Maintain service costs within budget	Yes.	Yes (achieved savings of £48, 561)

Notes:

[1] Overall 95% rated the service as ‘good’ or ‘very good’

[2] Total of only 3 days lost in total to sickness absence in the Audit Section in 2007-08

3.6 Staffing

- 3.6.1 The Audit plan for 2007/08 allowed for 5.5 persons to deliver the work contained in the plan.
- 3.6.1 The half-yearly report on Internal Audit activity for the six months to 30th September 2007 explained that a number of structural changes had been in the Financial Services division, which affected the Internal Audit section. This included the strengthening of the Internal Audit section by the addition of a second Principal Auditor post; with a corresponding reduction in the number of Trainee Auditor posts from 4 to 3. Line management responsibility for the Internal Audit section had been transferred to a newly designated post of Audit and Resources Manager (formerly Policy and Finance Manager) from 1st July 2007 onwards. A new post of Governance and Risk Manager has been created (and filled by the former Audit Manager) and is dedicated to driving the Council's corporate and strategic approach in these respective areas.
- 3.6.2 The Audit team is currently operating with two vacancies at the Trainee Auditor level. The staffing arrangements and resource requirements are currently being reviewed to ensure that the Internal Audit function continues to maintain the standard of service and that appropriate staffing is in place to carry out the work contained in the Audit Plan for 2008-09. Any audit work not completed in 2007-08 due to the staffing position was considered low risk but will be reviewed and considered for inclusion in the 2008-09 Plan.

3.7 Corporate Governance

- 3.7.1 The Council continues to have strong governance arrangements which are constantly under review to ensure continuing relevance. Areas such as risk management, internal control arrangements, Constitution rules and performance management are key to the Council's operations and efforts continue to be made around the Council to ensure the highest possible standards are achieved.
- 3.7.2 Revised Contract Procedure Rules have been formally adopted by the Council at its meeting in July 2007 (Minute ref: C.42/07). Compliance with the revised rules is a necessary feature of good governance arrangements and audit work will be scheduled to ensure that the Council operates within the requirements of the new Contract Procedure Rules. Internal Audit will examine compliance with these rules as part of next year's audit plan coverage.
- 3.7.3 Recent guidance has been issued by CIPFA / SOLACE regarding recommended best practice on governance in Local Government. The content of this new guidance has recently been examined and as a consequence the Council's Local Code of Corporate has been updated to reflect this. The revised Code of Corporate Governance was approved by Council at its meeting on 18th April 2008.
- 3.7.4 The Internal Audit section is also responsible for reviewing the Council's arrangements in respect of Fraud and Corruption and during the year a review of

the Council's existing arrangements were assessed against a CIPFA best practice checklist on 'Managing the Risk of Fraud'. The results of this self-assessment and associated action plan for improvement were considered by the Audit Committee at its meeting on the 5th November 2007. Further development of policies and arrangements regarding fraud and corruption are now being considered in local government reorganisation workstreams and the Audit team is involved in this process and contributing to workstream activity.

3.8 Risk Management

- 3.8.1 Risks are identified in each individual audit report produced. However, no system of review can give full assurance that all risks have been minimised and all controls have been operating effectively throughout the year. The Annual Audit Report therefore provides reasonable assurance based on the work that has been carried out.
- 3.8.2 The audit planning process aims to target the work of the Section to those areas where the impact of a control failure would have the highest impact and leave the Council vulnerable to major risks. Activity is directed toward providing assurances on the control environment and thereby highlighting any risk issues capable of causing damage to the Council.
- 3.8.3 Internal Audit continued its close involvement in the development of the Council's approach to risk management. Efforts to embed risk management into the Council's processes have continued and both Strategic and Operational Risk Management Groups continue to develop a wide range of issues. Risk is also a key feature of individual audits undertaken by the Audit team which involves reviewing 'generic risk profiles' as part of audit fieldwork.
- 3.8.4 A comprehensive report on progress with risk management was considered by this Committee on 28th January 2008 and the recommendations made were subsequently accepted by Cabinet at its meeting on 28th February 2008. As mentioned in the half-yearly report on audit activity previously considered by this Committee, revised Risk Management Policy and Strategy Statements have been approved by Cabinet on 26th April 2007 (Minute ref C207/06).

4 RESOURCE IMPLICATIONS

- 4.1 There are no direct implications for resources arising from the content of this report.

5. CONSULTATION

- 6.1 The Audit Plan for 2007-08 had been prepared and delivered following consultation across the Council and with the Audit Commission.

6. OTHER MATERIAL CONSIDERATIONS:

6.1 Links to Corporate Objectives / Values

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

6.2 Risk Management

6.2.1 This has been considered in Section 3.8 of this report. The full co-operation of management across the Council is essential to the maintenance of good quality governance, including risk management.

6.3 Equality and Diversity

6.3.1 No material considerations have been identified.

6.4 Legal and Constitutional

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

6.5 Other Material Considerations

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

7. LIST OF APPENDICES

7.1 Appendix A - Internal Audit Plan Summary of Work – April 2007 to March 2008

7.2 Appendix B - CIPFA Code of Practice Compliance Checklist

Contact Officer:	Azhar Rafiq, Audit & Resources Manager
Telephone number:	01388 816166 ext 4352
Email address:	arafiq@sedgefield.gov.uk
Wards:	Not ward specific
Key decision validation:	Not applicable

Background Papers:

1. Audit Committee, Internal Audit Plan for 2007/08, 23rd April 2007
2. Audit Committee, Half Yearly Report 2007/08, 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 type="checkbox"/> | <input type="checkbox"/> |
| 2. The content has been examined by the Council's S.151 Officer or his representative. | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 3. The content has been examined by the Council's Monitoring Officer or his representative. | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. The report has been approved by Management Team. | <input type="checkbox"/> | <input type="checkbox"/> |

Summary of Audit Work April 2007 – March 2008

Chief Executives Department

Analysis of Mandays

Regularity & Systems Audits

Human Resources System	7.75
Civic Cars	2.25
Training and Employment Services	9.25
Local Land Searches	<u>4.50</u>
	<u>23.75</u>

Economic Development

Business Centres	1.50
Industrial Estates	7.00
Industrial Promotions	0.50
Regeneration Initiatives	2.00
Enterprise Investment Scheme	<u>10.50</u>
	<u>21.50</u>

TOTAL **45.25**

Formal Reports Issued

Recommendations

Risk Assessment

April 2007 – September 2007

Civic Cars	None	Low / medium
Industrial Promotions	Yes	Low / medium
Training and Employment Services	Yes	Low / medium
Local Land Searches	None	Low / medium
Enterprise Investment Scheme	None	Low / medium

October 2007 – March 2008

Industrial Estates	None	Medium
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Summary of Audit Work October 2007 – March 2008**Chief Executives Department – Issues Reviewed during second half of 2007-08**1 Industrial Estates

- Accounts and records maintained by the Valuations and Business Rates sections were examined during the review which looked at the management of the Council's industrial estates.
- Business Rates and insurance amounts payable were reconciled to actual amounts on the Accounts Receivable System.
- All rent reviews and lease renewals were completed on time in 2007/08 and occupancy levels were above target.

The following work which was planned in the 2007/08 audit plan was not completed primarily due to two staffing vacancies in the Internal Audit section:

- Shildon Business Centre

Summary of Audit Work April 2007 – March 2008

Housing Services

Analysis of Mandays

Property Services

Contractors' Final Accounts	14.75
Central Heating	2.00
Fire & Security Alarm Contracts	0.25
Central Stores and Fuel	14.50
Disabled Persons Adaptations	<u>2.50</u>
	<u>34.00</u>

Management & Rents

Decoration Vouchers & Disturbance Allowances	3.50
Housing Management & Voids	17.50
Housing Rechargeable Repairs	5.00
Housing Rent Arrears	4.50
Portable Data Capture	<u>2.00</u>
	<u>32.50</u>

Total	<u>66.50</u>
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Formal Reports Issued

Recommendations	Risk Assessment
------------------------	------------------------

April 2007 – September 2007

Housing Management	Yes	Medium
Voids Management	None	Medium
Portable Data Capture System	None	Medium
Decoration Vouchers & Disturbance Allowances	None	Medium
Housing Rechargeable Repairs	Yes	Medium
Contractors Final Accounts	None	Low

October 2007 – March 2008

Contractors Final Accounts	None	Low
Disabled Persons Adaptations	Yes	Medium
Central Stores and Fuel	Yes	Medium

Summary of Audit Work October 2007 – March 2008**Housing Services – Issues Reviewed during second half of 2007-08****1 Contractors Final Accounts**

- Examination was carried out in respect of the contractor's final statements of account and working papers.
- There were no errors identified in respect of the 12 contracts reviewed.

2 Disabled Persons Adaptations

- Controls were examined in respect of dealing with disabled persons adaptations.
- No major issues were identified during the review although the service is subject to heavy demand.

3 Central Stores and Fuel

- Controls in place in respect of stocks held in central stores at Chilton Depot, plus stocks on maintenance vans and fuel stocks were examined.
- The system to review outstanding orders was generally satisfactory.
- Requisitions for goods and materials appeared reasonable and were issued correctly.

The following work which was planned in the 2007/08 audit plan was not completed due to the transfer of work to Mears under the Council's Housing Partnering Contract. The Internal Audit Section will be reviewing the contract with Mears in the 2008-09 year:

- Housing Maintenance System
- Contract Management & Monitoring
- Fire & Security Alarms Contract
- Central Heating Contract
- Service Improvement Plan

The following audit work was substantially completed but the formal report will be issued in financial year 2008/09:

- Rent Arrears

Summary of Audit Work April 2007 – March 2008

Leisure Services

Analysis of Mandays

Leisure Centres & Pools

Fishburn Swimming Pool	4.00
Gaming Machines	3.50
Leisure Centre Bars	3.75
Leisure Centre – FLC	7.00
Leisure Centre – NALC	5.75
Leisure Centre – SSLC	6.75
Leisure Centre – SLC	9.75
Leisure Centre - Fitness Suites	7.00
Torex System	<u>5.50</u>
	<u>53.00</u>

Other Leisure Activities

Cyber Cafes	5.25
Green Lane Canteen	3.00
Playleadership Schemes	3.25
Leisure & Arts Events	<u>2.75</u>
	<u>14.25</u>

TOTAL 67.25

Formal Reports Issued**Recommendations Risk Assessment**April 2007 – September 2007

Green Lane Canteen	Yes	Medium
Fishburn Swimming Pool	None	Low / medium
Gaming Machines Contracts	None	Low / medium
Schildon Sunnydale Leisure Centre	Yes	Medium
Leisure Centre Bars	Yes	Medium
Spennymoor Leisure Centre	Yes	Medium / high
Ferryhill Leisure Centre	Yes	Medium

October 2007 – March 2008

Cyber Cafes	None	Medium
Fitness Suites	Yes	Low
Leisure & Arts Events	None	Low
Playleadership Schemes	None	Medium

Summary of Audit Work October 2007 – March 2008**Leisure Services – Issues Reviewed during second half of 2007-08****1 Cyber Cafes**

- A review was carried out of income and banking, security, access and promotion controls.
- Cafes are located in 3 Leisure Centres and bookings and income are receipted through TOREX and banked with Leisure Centre takings.
- It was confirmed that PCs have anti-virus and web blocking software to restrict access and usage detail is received daily.

2 Fitness Suites

- Payments made to Competition Line (UK) Ltd for financial year 2006/07 were examined to ensure the process was appropriate and monies paid over were correct.
- A small overpayment has been identified and this was being reclaimed.

3 Leisure & Arts Events

- The controls in respect of the reconciliation, purchases and security surrounding the Mayor's Golf Tournament charity event were examined.
- Receipts for all items purchased were examined and agreed to the general ledger.

4 Playleadership Schemes

- Controls in place for the schemes were examined during the review.
- Expenditure was agreed to the general ledger.
- All staff were subject to an enhanced CRB check, prior to commencement of employment and held National Governing Body qualifications and are qualified First Aiders.

The following work which was planned in the 2007/08 audit plan was not completed primarily due to two staffing vacancies in the Internal Audit section:

- Grants and Interest Free Loans
- Mobile Skate Park
- Locomotion

The following audit work was substantially completed but the formal report will be issued in financial year 2008/09:

- Newton Aycliffe Leisure Centre

Summary of Audit Work April 2007 – March 2008

Neighbourhood Services

Analysis of Mandays

Regularity & Systems Audits

Carelink System	3.00
CCTV	0.50
Community Telemedicine System	0.25
Concessionary Bus Passes	4.25
Concessionary TV Licences	6.00
Drain Rodding Income	0.25
Home Improvement Agency	1.00
Homelessness Service	7.50
Horticulture	2.00
Improvement Grants System	3.50
Licensing Service	7.00
Planning & Building Fees	8.25
Supporting People	8.25
Vehicle Maintenance Operation and Stores	<u>7.25</u>
TOTAL	<u>59.00</u>

Formal Reports Issued**Recommendations Risk Assessment**April 2007 – September 2007

Homelessness Service	Yes	Medium
Vehicle Maintenance Operation	Yes	Medium
Home Improvement Agency	Yes	Medium / high
Shop Improvement Grants	Yes	Low / medium
Concessionary TV Licences	Yes	Medium
Concessionary Bus Passes	None	Medium

October 2007 – March 2008

Building Regulation Fees	Yes	Medium
Planning Application Fees	Yes	Medium
Carelink (Bus Income)	Yes	Low / medium
Licensing	Yes	Medium

Summary of Audit Work October 2007 – March 2008**Neighbourhood Services – Issues Reviewed during second half of 2007-08****1 Building Regulation Fees**

- Controls in place for building regulation fees were examined during the review.
- The correct fees had been charged from the sample selected for review.

2 Planning Application Fees

- Controls in place for planning application fees were assessed.
- The correct fees had been charged from the sample selected for review.

3 Carelink (Bus Income)

- Examination was carried out to ensure income reported had been received.
- Some recommendations were made to improve reconciliation and income collection procedures.

5 Licensing

- Controls in place for licensing were examined during the review.
- A number of recommendations were made to improve controls relating to income, invoicing, inspections and risk assessments to premises.

The following work which was planned in the 2007/08 audit plan was not completed primarily due to two staffing vacancies in the Internal Audit section:

- Trade Refuse Charges
- Drain Rodding
- Outdoor Markets
- Neighbourhood Wardens
- CCTV
- Home Improvement Agency

The following audit work has been deferred and will be completed in financial year 2008/09:

- Supporting People / Carelink

Summary of Audit Work April 2007 – March 2008

Resources

Analysis of Mandays

Income Audits

Cash Office – Green Lane	5.75
Cash Office – Ferryhill	6.25
Cash Office – Newton Aycliffe	4.25
Cash Office – Shildon	2.75
Collection Section Bank Reconciliation	7.25
Emergency Receipts	2.00
Postal Remittances	<u>3.75</u>
	<u>32.00</u>

General Audits

Bailiff Services	6.00
Capital Receipts & Accounting	2.25
Car Allowances	3.25
Car Leasing Scheme	2.25
Charges for Services	2.50
Council House Sales	3.75
Financial Checks	12.00
Imprests, Floats, Petty Cash	2.75
Insurances	4.50
IT – Procurement	6.00
IT – Mobile Phones	7.25
Members Allowances	3.75
Parish Recharges	3.00
Treasury Management	7.50
VAT	<u>3.25</u>
	<u>70.00</u>

Systems Audits**Information Technology**

IT Audit – General	2.25
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Accounts Payable

Emergency Cheques	5.00
System Work	20.00

Accounts Receivable: System Review and Tests 12.75**Payroll: System Review and Tests** 26.00**NNDR: System Review and Tests** 21.50**Council Tax: System Review and Tests** 23.00**Housing Benefit: System Review and Tests** 19.25**TOTAL** 231.75

Formal Reports Issued	Recommendations	Risk Assessment
<u>April 2007 – September 2007</u>		
Capital Accounting System	Yes	Low / medium
Car Leasing Scheme	None	Low / medium
Emergency Cheques	None	Low / medium
Value Added Tax	Yes	Medium
Green Lane Cashiers Office	No	Medium
Mobile Phones	Yes	Low / medium
ICT Procurement	Yes	Low / medium
Postal Remittances	Yes	Low / medium
Bailiff / Debt Collection Services	Yes	Low / medium
Emergency Receipts System	None	Low / medium
Accounts Payable – Duplicate Payments	None	Low
Imprests & Floats	Yes	Low / medium
Ferryhill Cash Office	None	Medium
Parish Recharges	None	Low / medium
<u>October 2007 – March 2008</u>		
Petty Cash	None	Low
Car Allowances	Yes	Low / medium
NNDR	Yes	Medium
Treasury Management	None	Medium
Council Tax	None	Medium
Newton Aycliffe Cash Office	Yes	Medium
Housing Benefits	Yes	High
Members Allowances	None	Low / medium
Insurance	Yes	Medium
Shildon Cash Office	Yes	Medium
Accounts Payable	Yes	Medium / high

Summary of Audit Work October 2007 – March 2008**Resources – Issues Reviewed during second half of 2007-08****1 Petty Cash**

- The review examined controls in respect of float reconciliation, the nature and regularity of reimbursements and security.

2 Car Allowances

- Controls around allowance claims were examined during the review.
- Payments were processed and paid in accordance with NJC guidance and internal procedures.
- Claimants are required to complete official forms for reimbursement to which VAT receipts should be added.
- Payroll ensured that adequate insurance documents were checked to support car mileage payments.

3 NNDR

- The purpose of the review was to assess the effectiveness of controls within the NNDR system.
- Audit work confirmed that the overall NNDR liability had been correctly calculated and sample testing also showed that discounts, reliefs and exemptions had been correctly applied.

4 Treasury Management

- The review was carried out to assess Treasury Management activity and ensure the Council policy regarding investment is being followed.
- There is an approved lending list and processes for fixed term investments, and a spreadsheet is maintained showing income and payments.
- Investments made were examined and controls were appropriate.
- Monthly activity transactions are reconciled to the FMS system and a performance report shows investment activity.

5 Council Tax

- The purpose of the review was to examine the effectiveness of controls within the Council Tax system.
- Changes actioned by the Valuation office were found to be appropriate, as were property valuation request forms and information sources.
- Collection and arrears figures are reported to senior management regularly and are closely monitored.
- The suspense account is regularly monitored and items were subsequently posted to the appropriate Council Tax payers' accounts.
- The void inspection programme was satisfactory.

6 Newton Aycliffe Cash Office

- Controls in place at the Newton Aycliffe Cash Office for cash floats, collections and banking, security and emergency receipts were examined.
- Floats and cash receipted were verified to the General Ledger.
- A minor recommendation was made relating to checking of floats within the cash office.
- The Collection and Deposit Book was up to date and the Collections' section reconciliation spreadsheet in relation to this cash office was also up to date.

7 Housing Benefits

- The review examined the effectiveness of controls within the benefits system.
- Claims checking identified no discrepancies and overpayments can be identified.
- Backdated claims were assessed in accordance with benefit regulations and supported by appropriate documentation.

8 Members Allowances

- Controls in place to pay basic, special responsibility and other allowances to members were reviewed.
- Members complete and sign claim forms to receive reimbursement and a sample of these were examined during the audit and found to be completed appropriately.
- Other payments including telephone rental, attendance allowance and advances were examined and paid appropriately.

9 Insurance

- Controls around the level of cover offered and adequacy of dealing with claims were examined during the review and considered to be appropriate.
- The contract with Zurich Municipal is due to end 31 October 2008 and in view of LGR a decision was taken to extend it to March 2009.

10 Shildon Cash Office

- The audit examined systems of control for cash floats, collections and banking, security and emergency receipts at the Cash Office.
- Floats and cash receipted were verified to the General Ledger.
- A minor recommendation was made relating to checking of floats within the cash office.
- The Collection and Deposit Book was up to date and the Collections' section reconciliation spreadsheet in relation to this cash office was also up to date.

11 Accounts Payable

- Controls in place for the accounts payable system were examined.
- Testing was undertaken on supplier invoices, BACS and cheque payments and reconciliation controls. This included use of computer interrogation techniques to query the accounts payable system. Systems and processes were found to be operating satisfactorily.

The following work which was planned in the 2007/08 audit plan was not completed primarily due to two staffing vacancies in the Internal Audit section:

- ICT Strategy & Policies

The following audit work was substantially completed but the formal report will be issued in financial year 2008/09:

- Payroll
- Accounts Receivable
- Collection Section Bank Reconciliation
- Council House Sales

Summary of Mandays**Audit Policy & Management****Chargeable Management Time**

Audit Commission Liaison	4.25
Audit Management & Supervision	19.75
Audit Planning and Administration	45.75
Development & Awareness	42.00
All Departments Miscellaneous	<u>22.00</u>
	<u>133.75</u>

Non – Chargeable Management Time

Time Management System	16.75
Training In House	19.25
Manager & Other Staff Meetings	23.75
Audit Sub – Groups	<u>6.50</u>
	<u>66.25</u>

Total 200.00

Corporate Studies & Projects

CIPFA FM Model	20.00
Chartermark	10.00
Corporate Governance	28.25
Energy Management	20.75
KLOE – Use of Resources	15.25
NFI Data Matching Exercise	1.00
Risk Management	35.50
Statement of Internal Control	<u>4.50</u>
Total	<u>135.25</u>

AUDIT MANDAYS TOTAL

Chief Executive	45.25
Housing Services	66.50
Leisure Services	67.25
Neighbourhood Services	59.00
Resources Department	231.75
Audit Policy & Management	200.00
Corporate Studies & Projects	<u>135.25</u>
<u>TOTAL</u>	<u>805.00</u>

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Compliance Checklist
Areas of non-compliance with the Code of Practice for Internal Audit in Local Government 2006

Code Ref	Adherence to the Standard	Comments
1.	Scope of Internal Audit	
1.1	Terms of Reference	
1.1.1	Do the terms of reference explain how internal audit's resource requirements will be assessed?	This is not specifically explained in the Audit Charter although the Audit Manual covers how resource requirements are assessed. Details of resources and staffing levels are included in reports on Internal Audit activity which are considered by the Audit Committee.
1.1.1	Do terms of reference establish rights of access to all records...including those of <u>partner</u> organisations...?	Unrestricted coverage to all records is stated in the Audit Charter. Access to records of 'partner' organisations is only implied as it is not explicitly mentioned.
1.2	Scope of Work	
1.2.3	Where services are provided in partnership has the Head of Internal Audit identified: a) how assurance will be sought? b) agreed access rights where appropriate?	Access rights have not been formally identified in 'partnership' arrangements. With respect to 'accountable body' arrangements, appropriate accounting and certification procedures are in place in compliance with the Councils' Financial Regulations.
2.	Independence	
2.1	Principles of Independence	
2.1.2	Where internal audit staff have been consulted during system, policy or procedure development, are they precluded from making comments during routine or future audits?	There is a rotation policy in place. Due to the small size of the team, it is difficult to apply this in practice. All work is supervised and reviewed independently by other auditors in any case. The Audit and Resources Manager monitors any potential conflict areas.
2.2	Organisational Independence	
2.2.2	Does the Head of Internal Audit report in his/her own name to members and officers?	Reports are made under the name of 'Director of Resources' although the report author is clearly identified as the 'Audit and Resources Manager'
2.3	Status of the Head of Internal Audit	
2.3.1	Is the Head of Internal Audit managed by a member of the corporate management team?	The immediate line manager is the 'Head of Financial Services' and not the 'Director of Resources' who sits on Management Team.
4.	Audit Committees	
4.2	Internal Audit's relationship with the Audit Committee	
4.2.4	Does the Head of Internal Audit participate in the [audit] committee's review of it's own remit and effectiveness?	Since the Audit Committee was first established in June 2006, a review has not been undertaken of its remit and effectiveness requiring the Audit and Resources Manager's participation.
5.	Relationships	
5.1	Principles of Good Relationships	
5.1.2	Is there a protocol that defines the working relationship for Internal Audit with b) other internal auditors? d) other regulators / inspectors?	There is no outsourcing of audit work and therefore no relationships with other internal auditors. The Audit Section liaises with the Audit Commission, but apart from this no other regulatory agencies are formally involved.
5.3	Relationships with other Internal Auditors	
5.3.1	Do arrangements exist with other internal auditors that include joint working papers, access to working papers, respective roles	There are currently no joint working arrangements in place covering access to papers, roles and confidentiality.

Code Ref	Adherence to the Standard	Comments
	and confidentiality?	
5.4	Relationships with External Auditors	
5.4.3	Are the internal and external audit plans co-ordinated?	There is some co-ordination in terms of high level consultation with respect to Audit Plans although no detailed co-ordination of audit fieldwork is held.
5.5	Relationships with Other Regulators and Inspectors	
5.5.1	Has the Head of Internal Audit sought to establish a dialogue with the regulatory and inspection agencies that interact with the organisation?	As a district Council, the range of inspection agencies is limited. Dialogue is maintained with the Audit Commission. Departments liaise appropriately with any regulatory bodies covering their specific service areas.
5.6	Relationships with Elected Members	
5.6.1	Do the terms of reference for Internal Audit define the channels of communication with members and describe how such relationships should operate?	The terms of reference do not define these channels although there is a Council protocol on member and officer relations.
8.	Undertaking Audit Work	
8.3	Recording Audit Assignments	
8.3.3	Is there a defined policy for the retention of all audit documentation, both paper and electronic?	There is no defined policy in place covering retention of audit documentation.
8.3.3	Do all retention and access policies conform to appropriate legislation. i.e. data protection act, freedom of information act, etc and any organisational requirements?	Although there are no defined policies in place specifically for the Audit Section, the service consults appropriately with designated council officers responsible for data protection and freedom of information etc. to maintain compliance.
8.3.3	Is there an access policy for audit files and records?	There is no defined policy for access to audit files and records. Audit documentation access is strictly controlled and there is no wider access outside of the Audit Section.
10.	Reporting	
10.2	Reporting on Audit Work	
10.2.1	Do the reporting standards include the requirement to give an opinion?	No formal opinion is given in audit reports regarding assurances.
10.2.7	Does the Head of Internal Audit have mechanisms in place to ensure that risk registers are updated?	Updating of risk registers is the responsibility of departments. Audit fieldwork includes reviewing risk register and risk management arrangements.
10.3	Follow-up Audits and Reporting	
10.3.3	Where appropriate, is a revised opinion given following a follow-up audit and reported to management?	No formal opinion is given although the outcome of follow-up work is appropriately reported.
11.	Performance, Quality and Effectiveness	
11.3	Performance and effectiveness of the Internal Audit Service	
11.3.2	Does the ...framework include...a comprehensive set of targets to measure performance...which are included in <u>service level agreements</u> , where appropriate?	No service level agreements exist as there is no outsourced audit work. There are a range of performance measure in place covering the work of the in-house team.
11.3.2	Does the ...framework include...user feedback obtained for each individual audit and <u>periodically</u> for the whole service?	User feedback is currently received for each individual audit but not periodically for the whole service. An annual review of the effectiveness of internal audit is undertaken by an independent 'review panel'.