

AUDIT COMMITTEE

Wednesday,
24 September 2008
5.30 p.m.

Conference Room 2,
Council Offices,
Spennymoor

AGENDA and REPORTS



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

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

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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. **MINUTES**
To confirm as a correct record the Minutes of the meeting held on 30th June 2008. (Pages 1 - 4)
4. **INTERIM AUDIT REPORT 2007/08**
Report of the Audit Commission. (Pages 5 - 16)
5. **REVIEW OF CAPITAL EXPENDITURE 2007/08**
Report of Audit Commission. (Pages 17 - 28)
6. **ANNUAL GOVERNANCE REPORT 2007/08**
Report of Audit Commission. (To follow)
7. **STATEMENT OF ACCOUNTS (YEAR ENDED 31ST MARCH 2008)**
Report of Director of Resources. (Pages 29 - 32)
8. **ANNUAL REVIEW OF TREASURY MANAGEMENT ACTIVITIES 2007/08**
Report of Director of Resources. (Pages 33 - 54)
9. **INTERNAL AUDIT SERVICE - INTERIM AUDIT REPORT FOR FIVE MONTHS ENDING 31ST AUGUST 2008**
Report of Director of Resources. (Pages 55 - 72)
10. **ANY OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT**
Members are respectfully requested to give the Chief Executive notice of items they would wish to raise under the heading not later than 12 noon on the day preceding the meeting, in order that consultation may take place with the Chairman who will determine whether the item will be accepted.

B. Allen
Chief Executive

Council Offices
SPENNYMOOR

16th September 2008

Councillor D. Chaytor (Chairman)

Councillor J.G. Huntington (Vice Chairman) and

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

B. Argyle – Co-opted 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 Spenny Moor 816166 Ext 4240 ggarrigan@sedgefield.gov.uk

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Item 3

SEDGEFIELD BOROUGH COUNCIL

AUDIT COMMITTEE

Conference Room 1,
Council Offices,
Spennymoor

Monday,
30 June 2008

Time: 9.00 a.m.

Present: Councillor D. Chaytor (Chairman) and
Councillors J.G. Huntington and B. Stephens
B. Argyle (Independent Member)

Apologies: Councillors T. Brimm, C. Nelson and Mrs. C. Potts

AC.1/08 DECLARATIONS OF INTEREST
Members had no interests to declare.

AC.2/08 MINUTES
The Minutes of the meetings held on 15th April, 2008 and 2nd June, 2008 were confirmed as correct records and signed by the Chairman. (For copies see file of Minutes).

AC.3/08 ANNUAL GOVERNANCE STATEMENT 2007/08
Consideration was given to a report of the Director of Resources regarding the Council's Annual Governance Statement 2007/08. (For copy see file of Minutes).

It was reported that the Account and Audit Regulations 2003 and 2006 required the Council to ensure that its financial management arrangements were adequate and effective and that there was a sound system of internal control in place which facilitated the effective exercise of the Council's functions and which included arrangements for the management or risk.

The regulations also required the Council to conduct a review at least once a year of the effectiveness of its System of Internal Control.

Although the Annual Governance Statement was incorporated in the Annual Statement of Accounts, best practice recommended that it be considered separately from any Review of the Statement of Accounts.

Members attention was drawn to the Annual Governance Statement 2007/08 which was attached to the report.

The Annual Statement covered the following areas :-

- The scope of responsibility
- The purpose of the Governance framework
- The Governance framework
- Review of effectiveness

- Outstanding issues from previous statements
- Significant governance issues 2007/08

Specific reference was made to governance aspects of the Transition Plan as well as the potential risks associated with the reorganisation of Local Government in County Durham.

It was explained that a number of arrangements had been put in place to minimise these risks. A nominated Risk Manager had been identified to be responsible for preparing and maintaining a risk log. The various workstreams involved in the Local Government Review process had also identified key risks which would be managed as part of the preparatory arrangements for the new Council.

- RESOLVED :*
1. *That the Committee approves the Annual Governance Statement for 2007/08 and recommends its acceptance to Council.*
 2. *That the Statement be incorporated into the Statement of Accounts for the 2007/2008 financial year.*

AC.4/08 STATEMENT OF ACCOUNTS (FOR YEAR ENDED 31ST MARCH 2008)

Consideration was given to a report of the Director of Resources regarding the Statement of Accounts for the year ended 31st March 2008. (For copy see file of Minutes).

The report had been prepared to meet the statutory requirements set out in the Accounts and Audit Regulations 2003 for the production and publication of the Annual Statement of Accounts.

It was explained that under the Regulations the Council was required to approve the Accounts of the Authority by no later than 30th June 2008 prior to their publication and formal signing off by the District Auditor.

Members were given details of the outturn financial position for the two principle revenue accounts (Council maintained)

- General Fund
- Housing Revenue Account

Details were also given on how the outturn position had impacted on the levels of the Council's reserves together with the revenue provisions approved by the Director of Resources to be carried forward for use in 2008/09.

Consideration was also given to a report prepared by the Accountancy Services Manager setting out a number of changes to the format of the report and analysis of the figures. It was explained that as a result of these changes the income and expenditure account had been amended. A copy of the amended income and expenditure account for year ended 31st March 2008 was circulated at the meeting.

Members queried whether the current financial position of the Council was similar to that which was forecast when the revenue budgets were prepared for 2007/2008 (and approved by Council in February 2008). In response it was explained that the financial position on the General Fund had improved throughout 2007/08 as a result of savings on general operating expenses and greater than anticipated staff turnover.

With regard to the Housing Revenue Account it was pointed out that although some costs had been incurred earlier than anticipated, reserves in particular relating to the costs associated with the proposed transfer of the Councils Housing Stock and set up costs in respect of the Housing partnership contract for maintenance and major works. These costs had been budgeted to be incurred in 2008/09 and consequently revenue reserves would be subsequently replenished.

RECOMMENDED : That the Council approves the Statement of Accounts for year ended 31st March 2008.

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Interim Audit Report

Sedgefield Borough Council

Audit 2007/08

August 2008



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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 non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

Summary report

Introduction

- 1 Our interim opinion audit involved a review of your material financial systems and the operation of key controls. This report summarises the results of our interim visit and the implication on our work at final accounts.
- 2 In performing this work, we work closely with Internal Audit and every three years we are required to review Internal Audit for compliance against the CIPFA Code for Internal Audit. This report also includes the findings of our triennial review of Internal Audit.

Background

- 3 The audit has been carried out to be ISA (International Standards on Auditing, United Kingdom and Ireland) compliant in accordance with the 2005 Code of Audit Practice. The ISA's were introduced by the Auditing Practices Board, applying to all accounting periods starting after 15 December 2004.
- 4 These ISA's place a greater emphasis on identifying information systems that lead to material balances in the financial statements, and evaluating and testing relevant key controls at the assertion level. In particular, ISA+315 requires us to demonstrate our understanding of the environment in which the Council operates and ISA+330 requires us to design procedures to mitigate risks. At the interim audit stage, these procedures are normally compliance tests in respect of key controls.

Audit approach

- 5 We have adopted a four stage approach to our interim audit:
 - stage 1: carry out a risk assessment of the general environment within which the Council's information systems operate;
 - stage 2: map the systems that provide material figures in the financial statements;
 - stage 3: document the processes and controls in place within each material system and undertake a walkthrough to ensure the system is operating as stated; and
 - stage 4: assess which are the key controls to ensure the integrity of the accounting entries and obtain evidence that they are operating as intended.

- 6 This work identifies the extent to which we can gain assurance from the controls the Council has put in place, and informed the testing strategy adopted for the final accounts audit, which started on 7 July 2008.
- 7 We carried out a detailed review of budgetary control and internal audit in order to assess the degree of assurance we could draw from the overall control environment. We then identified nine material financial systems and focused our work at stages 3 above on these areas:
 - general ledger;
 - payroll;
 - creditors;
 - benefits;
 - rents;
 - sundry debtors;
 - cash receipting;
 - council tax; and
 - NNDR.
- 8 Stage 4 was applied to the first 4 systems above this year in accordance with our cyclical plan.

Main conclusions

- 9 The Council has an effective control environment and strong budgetary control delivers considerable assurance that the accounts have not been materially misstated. The Council also has sound controls operating over the material financial systems that underpin the production of the 2007/08 financial statements. However, these controls could be better evidenced.
- 10 We confirmed that the Internal Audit Service provided at Sedgefield Borough Council, mostly complies with the requirements of CIPFA's Code of Practice for Internal Audit. However, again there were areas where compliance could have been better evidenced. We fed back our findings to the Audit and Resources Manager and Principal Auditor verbally earlier this year and remedial action was taken, which included improving the consistency of evidencing and recording internal audit work. Overall, IA are assessed as sufficiently compliant to ensure that the opinion given in their Annual Report is sound and IA can be relied upon where appropriate.

Detailed findings

Systems of Financial Management and Internal Control

- 11** Budgetary control is one of the Council's strengths. However, there is no audit trail to demonstrate that each budget holder reviews the monthly reports sent to them by Accountancy. The relevant portfolio accountant is in regular dialogue with budget holders in preparing reports to quarterly working groups, which discuss the issues arising in detail. Thus, it is unlikely that a failure to review budgetary control reports and investigate variances would fail to be detected. However, staff turnover and workload pressure in the run-up to LGR and LSVT increases this risk.
- 12** Although monthly bank reconciliations are properly performed by Accountancy there was no evidence that they had been independently reviewed. The reconciliations were not signed and dated either by the preparer or the reviewer.
- 13** Accountancy also perform various monthly or weekly reconciliations for all feeder systems to the general ledger to demonstrate that interfaces have transferred correctly, but again the reconciliations were not always clearly evidenced. In particular, we found:

 - some in-year reconciliations were recorded on tabulaions that were destroyed after a few weeks rather than retained to provide an audit trail;
 - rents, council tax and NNDR reconciliations were not always signed and dated by the compiler and reviewer; and
 - a control book summarising the interfaces made did not clearly indicate the balances transferred nor the officers responsible for the reconciliation.
- 14** The Council Tax Manager performs monthly reconciliations of schedules of alteration received from the Valuation Office but again these reconciliations are not evidenced.
- 15** The Accountancy Section does not have an authorised signatory list to check that departmental officers preparing journals and rechargeable works schedules are authorised to do so. Moreover, we found instances (eg journal 1306422 £750) where the department did not forward the rechargeable works form for over six months after the date the service was performed. This delay makes it harder to query the instructions and makes management information less up to date. However, as almost all significant journals (>£1,000) are prepared within Accountancy there is a low risk of this influencing decision making or leading to significant errors in financial reporting.

Internal Audit

- 16** The CIPFA Code on Internal Audit (2006) requires a risk based approach to be followed through which a system is first reviewed and controls documented, then key controls identified and finally compliance tests performed on those key controls. This approach is set out in the Audit Manual but there was insufficient evidence that this approach was followed in practice during 2007/08. The audit brief conveyed the misleading impression that the testing was pre-determined and not the result of an assessment of risk following the documentation of the system.
- 17** Internal Audit (IA) did not always perform compliance testing on key controls within the key financial systems. For example, a key control within benefits is the pre-notification check of claims performed by independent assessors on a sample basis. IA did not seek evidence that this control was being performed but instead went straight to checking the calculations themselves.
- 18** The presentation of IA working paper files could be improved. The files do not contain an index page and do not follow a consistent, logical sequence. Referencing is patchy and some key forms were left incomplete such as the audit work section of the job brief and the QM36 form or alternative list of key controls. One large file did not contain any dividers and many of the pages were unnumbered making it very difficult to follow. Consequently, two of the three files reviewed did not initially meet the CIPFA IA standard of being easy for an experienced, independent auditor to follow (standard 8.3.2). However, the third (payroll) was much better documented and the Audit and Resources Manager assured us that this was now the normal standard. The other two jobs had been started by staff that had left and new auditors had taken them over mid-audit.
- 19** The IA Manual needs updating in two respects:

 - it includes a test summary form and says that it is mandatory for all testing but the form has not been used for several years and its contents are now covered on separate working papers; and
 - the new CIPFA IA standard introduced a requirement to document arrangements for respecting the confidentiality of data and the recent loss of child support data requested by the National Audit Office illustrates the risk of confidential data being handled carelessly and the need for robust procedures to mitigate the loss. However, the issue is not covered in Internal Audit's Audit Manual.
- 20** During 2007/08 IA had a procedure whereby no satisfaction survey was sent if there were no recommendations, but this made it difficult to confirm that surveys had been promptly issued when required and followed up when they were not returned. Moreover, there may be important feedback in areas where no recommendations are raised. The Audit and Resources Manager stated that satisfaction surveys are now requested electronically for all completed audits and this has improved the response rate in 2008/09.

Summary report

- 21** The 2007 Annual IA Report did not meet the LG standard on reporting in respect of:
- no explicit opinion on the control environment;
 - no PIs re satisfaction levels, acceptance of recommendations and timeliness of reporting;
 - no mention of the work being undertaken in accordance with the CIPFA Code for IA; and
 - no summary of QA procedures in place and results.
- 22** However, this appears to be a one-off as the 2008 Annual IA Report approved by the Audit Committee on 2 June 2008 does include these requirements. This report also includes a self-assessment of IA's compliance with the CIPFA Code of practice. Some additional areas of non-compliance or partial compliance are identified but overall IA assessed themselves as 90 per cent compliant and the Audit Committee and Section 151 Officer were satisfied that this was sufficient to make the opinion in the Annual Report reliable.

Recommendations

- | | |
|-----------|--|
| R1 | Develop a pro-forma for budget holders to complete and return to their portfolio accountant confirming that they have reviewed the budgetary control reports sent to them and noting any explanations for significant variances. |
| R2 | Ensure that bank reconciliations are signed and dated by both the compiler and an independent, senior reviewer. |
| R3 | Revise the control file of reconciliations between feeder systems and the ledger during the year to clarify which interfaces were checked, the responsible officers and what the balances on each system were. |
| R4 | Ensure that the Council Tax Manager signs and dates schedules of alteration received from the Valuation Officer to evidence the monthly reconciliation of property numbers to the council tax system. |
| R5 | Prepare an authorised signatory list to check the authorisation of journals and rechargeable works forms submitted by departments and instruct departments to ensure that they are submitted within one month. |
| R6 | Revise audit briefs to demonstrate compliance with the risk-based approach. The brief should require that each job starts with documentation of the system, followed by an evaluation of the system before the key controls to be tested are identified. |

Recommendations

R7 Clarify in audit briefs that all key controls identified should be subject to compliance testing.

R8 Agree at a team meeting a common file structure for IA working papers, which includes the testing headed by a QM36 form or equivalent list of key controls fully cross-referenced to the supporting tests.

R9 Update the Internal Audit Manual to ensure that it reflects current practice and covers the confidentiality of data.

Appendix 1 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	Financial Management and Systems of Internal Control					
7	R1 Develop a pro-forma for budget holders to complete and return to their portfolio accountant confirming that they have reviewed the budgetary control reports sent to them and noting any explanations for significant variances.	3	Accountancy Services Manager	Not Agreed. Compensating Control agreed instead.	Democratic Services will be asked to expand minutes of quarterly strategic working groups to confirm that all budget holders received and reviewed their monthly budgetary control reports and also to explain significant variances and the action taken.	30 September 2008
7	R2 Ensure that bank reconciliations are signed and dated by both the compiler and an independent, senior reviewer.	3	Accountancy Services Manager	Agreed	Responsibility for bank reconciliations has now changed and this is being done.	31 August 2008
7	R3 Revise the control file of reconciliations between feeder systems and the ledger during the year to clarify which interfaces were checked, the responsible officers and what the balances on each system were.	2	Accountancy Services Manager	Agreed	Control book amended to reflect agreed changes of recording interfaces and reconciliations.	30 September 2008

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R4 Ensure that the Council Tax Manager signs and dates schedules of alteration received from the Valuation Officer to evidence the monthly reconciliation of property numbers to the council tax system.	2	Revenue Services Manager	Agreed	The Total Page from the Schedules of Alteration and the supporting report from the council tax system will be printed down and the former signed to evidence the property numbers agree.	30 September 2008
7	R5 Prepare an authorised signatory list to check the authorisation of journals and rechargeable works forms submitted by departments and instruct departments to ensure that they are submitted within one month.	1	Accountancy Services Manager	Partially Agreed	Departmental journals are relatively rare and low value. In exceptional cases where they exceed £1,000 authority from a departmental head will be required to support the journal. Departments will be reminded to forward journals and recharge forms promptly.	30 September 2008
Internal Audit						
7	R6 Revise audit briefs to demonstrate compliance with the risk-based approach. The brief should require that each job starts with documentation of the system, followed by an evaluation of the system before the key controls to be tested are identified.	3	Audit and Resources Manager	Agreed	An extract from the Audit Manual describing the risk-based approach is now included in all audit briefs.	31 August 2008
8	R7 Clarify in audit briefs that all key controls identified should be subject to compliance testing.	3	Audit and Resources Manager	Agreed	IA always ensure that they are not part of the controls in the system they are auditing but recognise that at times substantive tests have been used when compliance testing was feasible.	31 August 2009

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R8 Agree at a team meeting a common file structure for IA working papers, which includes the testing headed by a QM36 form or equivalent list of key controls fully cross-referenced to the supporting tests.	2	Audit and Resources Manager	Agreed	The team will agree a consistent order for each file. Sections for documenting the system, assessing the key controls, testing the key controls and reporting will be clearly separated and indexed. The approach to page numbering will also be reviewed to improve cross-referencing.	30 September 2008
8	R9 Update the Internal Audit Manual to ensure that it reflects current practice and covers the confidentiality of data.	1	Audit and Resources Manager	Agreed	The vast majority of the Audit Manual is up to date and as a district council SBC handles lower volumes of sensitive data than single-tier authorities.	30 September 2008

The Audit Commission

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Review of Capital Expenditure

Sedgefield Borough Council

Audit 2007/08

September 2008



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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 non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

Summary report

Introduction

- 1 The Council budgeted to spend £26m on capital expenditure in 2007/08, which represented a doubling of the capital programme in just three years. The majority of the expenditure related to housing schemes. In February 2008, the Council entered a partnership agreement with MEARS construction covering the delivery of all capital works, repairs and maintenance for the Council's housing stock. It is currently consulting tenants about a proposal to transfer the entire stock to a registered social landlord (Sedgefield Borough Homes) in early 2009 and is considering transferring responsibility for regeneration capital projects to a local authority owned company. It is trying to conclude this significant organisational change before the Council is abolished as part of local government re-organisation in April 2009.
- 2 In 2007/08, almost half the capital expenditure was incurred in the final two months of the year and £4m was re-profiled for completion in 2008/09. It is not unusual for authorities to spend a large proportion of their capital expenditure in the final quarter but the extent of the uneven expenditure in 2007/08 is unusual and raises concerns over value for money. It will also be difficult to accommodate significant slippage in 2008/09 because of LGR and stock transfer.
- 3 The Audit Code of Practice requires us to give an annual opinion on the Council's arrangements for value for money and we decided that we needed to review your arrangements for managing capital projects before giving this opinion in view of:
 - the value and rate of increase of capital expenditure;
 - the concentration of capital expenditure in the final two months;
 - the significant change in management arrangements as a result of the MEARS partnership; and
 - the impact on capacity of plans for LGR and housing stock transfer.

Background

- 4 We last reviewed capital project management at Sedgefield in detail in 1996. We found capital projects to be '*well-managed*' with high levels of user satisfaction, fewer delays than usual and overall costs within budget. The report only identified a few enhancements to existing good practice. However, the capital programme at the time amounted to £8m and the greatest part was allocated to '*tenant-led improvement (TLI)*' schemes, which ended in 2005.

Audit approach

- 5 We focused our review on housing capital projects because the only significant non-housing capital scheme concluded in 2007/08 was a one-off leisure scheme that is currently the subject of a legal dispute.
- 6 The Council completed a questionnaire in respect of the last 16 capital projects to reach practical completion as at 31 March 2008 and we analysed the results using national benchmarks to assess adherence to cost and timetable. We discussed the arrangements for managing capital projects both before and after the MEARS partnership with the Head of Housing Property Services and Design and Management Manager. We also reviewed a file of evidence including tenant satisfaction surveys and project monitoring reports.

Main conclusions

- 7 The Council continues to manage capital projects well and there are no issues that would prejudice our unqualified VFM Conclusion. Tenant satisfaction remains high, the extent of delays is less than the national average and the housing capital programme was 6 per cent under-spent overall.
- 8 Although only 30 per cent of the capital programme was spent in the first half of the year, this was due primarily to the amount of time spent preparing for the transfer of staff to MEARS and the unprecedented levels of sickness amongst in-house staff following the issuing of redundancy notices in July 2007. Early indications are the partnership is working well with high tenant satisfaction maintained, significantly reduced design, tender and mobilisation periods and a commitment to freeze prices throughout the three-year contract.
- 9 We identified a few further enhancements to good practice that may prove necessary to ensure that capital projects continue to be managed well in 2008/09 when capacity will be stretched by preparations for LGR and housing stock transfer.

Main findings

Cost

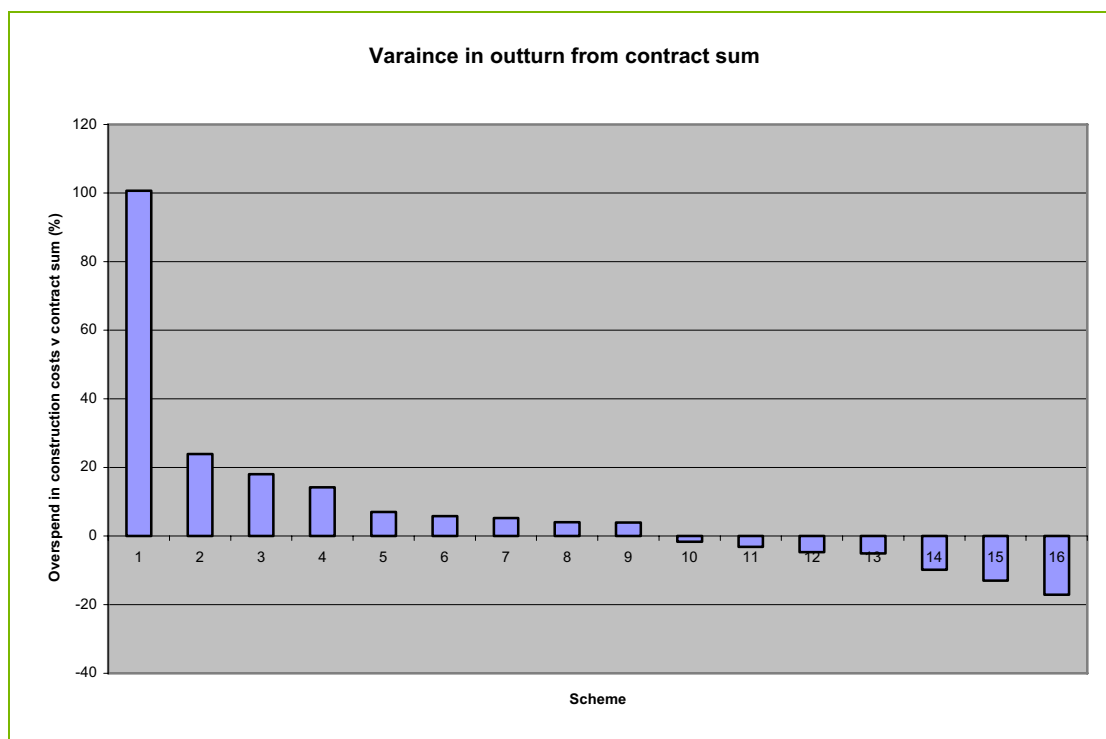
- 10 The Authority has consistently kept overall capital spending within the capital budget. Under-spends have usually been below 10 per cent by year-end although a disproportionate level of expenditure has taken place in the final quarter. In 2007/08 the HRA Capital Programme was under-spent by 6 per cent and the under-spend on the last 16 projects completed was just 1 per cent, but delays in processing compulsory purchase orders held up the demolition of private houses resulting in £4m of the general fund capital programme being re-phased to 2008/09.

Summary report

11 The tight overall budgetary control disguises significant variation on individual projects. Figure 1 illustrates that the costs of 63 per cent of projects varied by over 5 per cent from the contract sum, compared to 50 per cent nationally. This was partly because half the central heating schemes completed were extended during construction to cover significantly more properties than contracted. However, even excluding the extended contracts the level of cost variation was above average.

Figure 1 Level of cost variation during construction

The Council's capital projects were more prone to cost variations than the national average of 50 per cent of schemes within 5 per cent.



Source: Audit Commission survey of last 16 capital projects completed by 31 March 2008

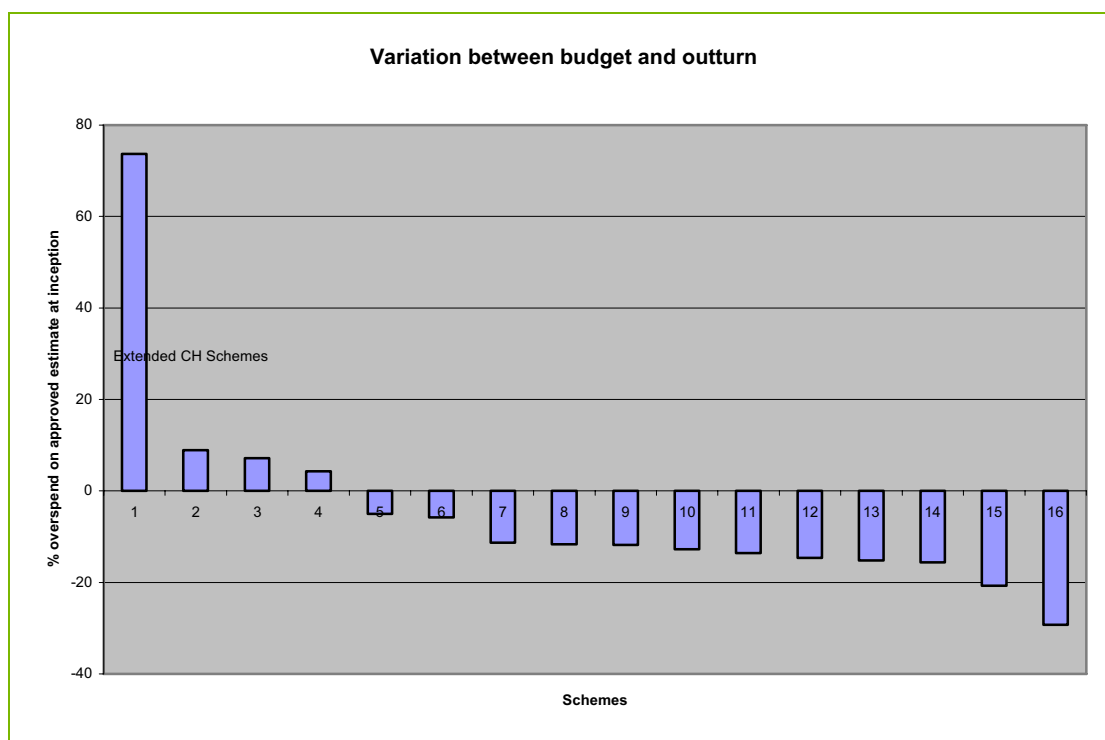
12 The Audit Commission found that the later in a capital project changes happen the more costly they are and we suggested in our 1996 report that project briefs are frozen before tenders are invited. However, the Council does not freeze briefs because:

- the scope is often extended where tenders are much more competitive than expected; or
- tenants have failed to confirm their design choices.

- 13** Excluding extended contracts, 92 per cent of projects were under-spent against their initial estimate. The Council uses appropriate methods to estimate costs based on historic unit costs and published BICS rates but assumes that all properties have the maximum specification and costliest design choices available and this tends to overstate budgets. Many tenants decide to keep existing fittings such as stone fireplaces rather than get them updated with the wooden fire surrounds offered by the Council but this isn't assessed until after projects have been approved. The extent of variation against budgets is displayed in figure 2.

Figure 2 The Council tends to under-spend against initial estimates

75 per cent of projects under-spent but excluding extended central heating schemes the figure is 92 per cent.



Source: Audit Commission survey of last 16 projects completed at 31 March 2008.

- 14** The Council gave valid reasons for extending the scope of the central heating schemes either through varying the terms of a contract (as happened in schemes 1-3 above) or through negotiating follow-on contracts with the contractor. There were some especially competitive prices received from tendering in 2007 and the chosen contractor delivered good value for money. Extensions were discussed with the section 151 Officer and Monitoring Officer and most negotiated contracts formally approved by the Cabinet. However:

- the authorisation and the supporting justification was not always evidenced;
- the negotiated follow-on contract (89624) was not approved by Cabinet as required by the Constitution (Contract Procedure 8) due to a shortage of time to complete planned work by the year-end and hit decent homes standard targets;

Summary report

- this contract was vastly extended in scope from 208 to 372 properties but the only documented authorisation was a contract administrator's instruction signed by a quantity surveyor; and
- in packaging contracts for 2008/09 the Council and its partner have not increased the size of central heating schemes to give more firms the opportunity to exploit economies of scale and avoid the need for further extensions.

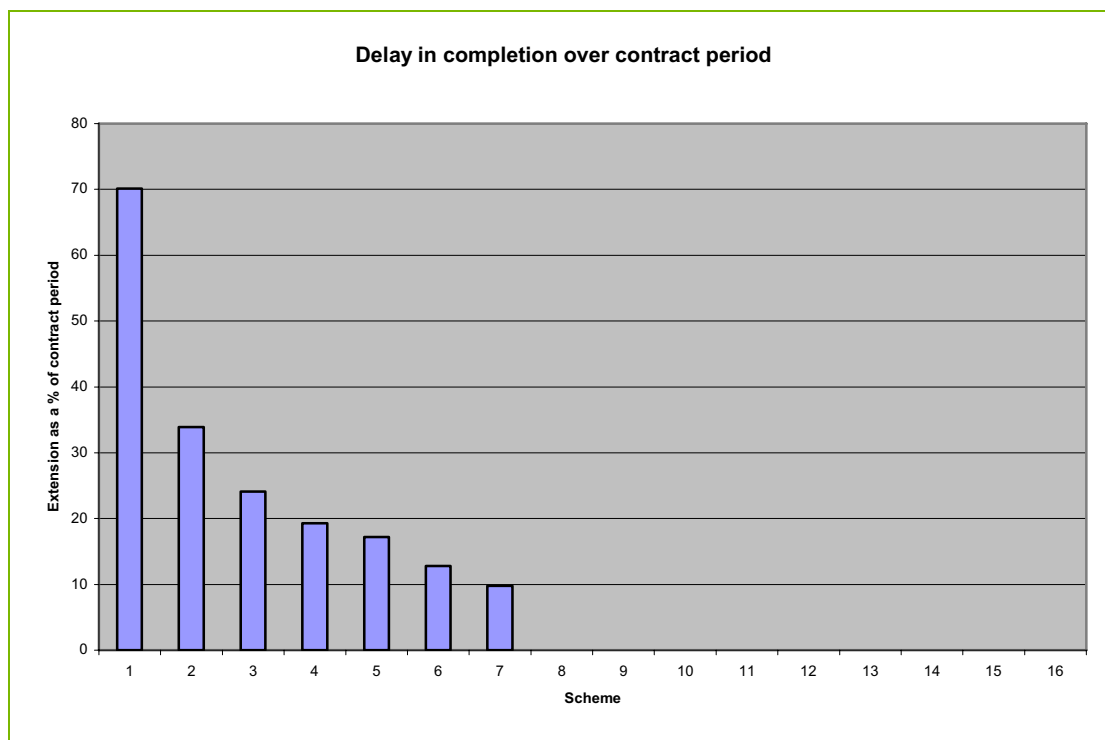
15 The financial monitoring of capital projects is at a much higher level than the monitoring of physical progress. The Housing Services Group Report gives monthly information on the physical progress of each capital project but the Housing Working Group's financial monitoring report is at programme element level and the reports to Cabinet are by service area. Thus, significant variances on individual projects such as those on project 89624 where the outturn was twice the contract sum might not be appropriately scrutinised. Capital budget holders receive capital budgetary control reports at scheme level and whilst this format might be too detailed for reporting to Members the reports to Cabinet and the Housing Working Group should at least show expenditure against budget on each major capital project.

Timeliness

16 Although high in-house sickness levels meant that capital projects tended to take longer to complete in 2007/08 than usual with 43 per cent of expenditure in the final two months the Council continued to perform better than average at adhering to project timetables. Exhibit 3 shows that 56 per cent of capital projects were completed on time compared to a national average of just 25 per cent and the average delay was 27 days compared to 57 days nationally.

Figure 3 Delays in contract completion

The Council completed most capital projects on time and delays were relatively minor with the three biggest delays being due to the extended contracts.



Source: Audit Commission survey of last 16 capital projects completed at 31 March 2008

17 The proportion of delayed starts, the design and tender period and the mobilisation period from contracts being let to start on site are all fairly average but MEARS have reduced these periods considerably and were able to start some construction work on site in April 2008. This is important because the Council will wish to minimise work in progress at 31 March 2009 when the Council is due to be abolished and the housing stock transferred to a registered social landlord.

Quality

18 In our 1996 report we found that the Council had the highest level of user satisfaction in the County and this high level of satisfaction has been sustained. Overall satisfaction has been consistently about target, averaging 86 per cent in 2007/08 compared to 83 per cent the previous year. There were lots of quality safeguards in contract prelims and tendering procedures and tenants continue to be extensively consulted with dedicated liaison officers and representatives on working groups. However, only 38 per cent of tenant satisfaction surveys were returned with response rates varying from 16 per cent to 66 per cent.

Summary report

Recommendations	
R1	Impose a deadline for tenants to confirm design choices so specifications can be frozen prior to inviting tenders.
R2	Record the authorisation and justification for extended contracts and negotiated follow-on contracts.
R3	Discuss the potential for packaging central heating schemes into larger contracts with the housing partner.
R4	Ensure that financial monitoring reports to Cabinet and the Housing Working Group link the more detailed monitoring of physical progress to the financial progress of each major capital project.
R5	Agree arrangements for capital work in progress at 31 March 2009 with successor bodies.
R6	Use tenant liaison officers to chase up unreturned satisfaction surveys.

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	R1 Impose a deadline for tenants to confirm design choices so specifications can be frozen prior to inviting tenders.	3	Head of Housing Property Services	Agreed		30 September 2008
9	R2 Record the authorisation and justification for extended contracts and negotiated follow-on contracts.	3	Head of Housing Property Services	Agreed		30 September 2008
9	R3 Discuss the potential for packaging central heating schemes into larger contracts with the housing partner.	2	Head of Housing Property Services	Agreed	These discussions have now taken place and larger contracts are planned for the next round of central heating contracts.	Implemented
9	R4 Ensure that financial monitoring reports to Cabinet and the Housing Working Group link the more detailed monitoring of physical progress to the financial progress of each major capital project.	2	Deputy Director of Finance	Agreed		30 November 2008
9	R5 Agree arrangements for capital work in progress at 31 March 2009 with successor bodies.	2	Head of Housing Property Services	Agreed		30 November 2008
9	R6 Use tenant liaison officers to chase up unreturned satisfaction surveys.	1	Head of Housing Property Services	Agreed		30 November 2008

The Audit Commission

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Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

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www.audit-commission.gov.uk

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Item 7

REPORT TO AUDIT COMMITTEE

24th SEPTEMBER 2008

REPORT OF DIRECTOR OF RESOURCES

Portfolio: STRATEGIC LEADERSHIP

STATEMENT OF ACCOUNTS (FOR YEAR ENDED 31ST MARCH 2008)

1. SUMMARY

This report deals with the draft Annual Governance Report and the Final Accounts Memo produced by the Audit Commission following the completion of their audit of the 2007/2008 Annual Statement of Accounts.

2. RECOMMENDATIONS

That the Statement of Accounts for the year ended 31st March 2008, as amended, be recommended to Council for approval.

3. DETAIL

In June this Committee considered a report on the Statement of Accounts for the year ended 31st March 2008 prior to it being subject to audit by the Audit Commission. That report detailed the process required for the Council to approve the accounts and the steps required prior to the formal signing off by the District Auditor.

The Audit of the Statement of Accounts has now been completed and the District Auditor's draft formal report on the Audit is attached for members consideration. There are a couple of material changes required to the Statement of Accounts and therefore it will be necessary for Council to re-approve the document, these are detailed in paragraphs 17- 21 and Appendix 2 of the Annual Governance Report. There are also some non-material amendments to the statements that are detailed in Appendix 2 of the Annual Governance Report. As indicated the amendments have been made to the accounts. Council is required to approve these changes irrespective of the fact that they have no impact on the financial standing of the Authority.

After the Audit has been completed the District Auditor will issue an Audit Certificate, on receipt of that document the Director of Resources will publish the Statement of Accounts. In order to comply with this requirement apart from producing copies of the Statement it will also be placed on the Council's website.

In addition the Council will once again be preparing a "summary of the accounts" which has been subject to stakeholder consultation and it will be distributed to all residents of the Borough as an insert in Inform.

4. RESOURCE IMPLICATIONS

There are no further resource implications arising from this report.

5. CONSULTATIONS

Comprehensive consultation has previously been held during the construction of the 2007/2008 Budget Framework. This report does not contain any proposals or recommendations requiring further consultation.

6. OTHER MATERIAL CONSIDERATIONS

6.1 *Links to Corporate Objectives/Values*

The Council's Corporate Objectives and Values have guided the preparation of the 2007/2008 Budget Framework throughout. Resource availability has been fully re-assessed and directed to assist in achieving the Council's key priorities as set out in the Corporate Plan. Particular emphasis has been placed on the following Corporate Values: -

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

6.2 *Risk Management*

There have been no further risks identified other than those highlighted in the report to Council on the 27th February 2007.

6.3 *Health and Safety*

No additional implications have been identified.

6.4 *Equality and Diversity*

No material considerations have been identified.

6.5 *Legal and Constitutional*

The Budget Framework for 2007/2008 was prepared in accordance with the Council's Constitution. No other legal or constitutional implications have been identified.

7. OVERVIEW AND SCRUTINY IMPLICATIONS

Consultation and engagement with Overview and Scrutiny Committees has previously been held in development and review of the 2007/2008 Budget Framework.

Contact Officer: Alan Smith [Director of Resources]
Telephone No.: 01388-816166 ext. 7776
E-Mail Address: asmith@sedgefield.gov.uk

Ward: Not Ward specific
Key Decision: Validation

- Background Papers:**
- ~ Report to Council 27th February 2007 – Budget Framework 2007/2008.
 - ~ Report to Council 5th July 2007 – Statement of Accounts 2006/07
 - ~ Reports to Cabinet 27th September 2007- Revenue & Capital Budgetary Control Report – Position at 31st July 2007
 - ~ Report to Cabinet 1st November 2007 – Interim Capital Programme Review 2007/08
 - ~ Reports to Cabinet 22nd November 2007- Revenue & Capital Budgetary Control Report – Position at 30th September 2007
 - ~ Reports to Cabinet 28th February 2008- Revenue & Capital Budgetary Control Report – Position at 31st January 2008
 - ~ Reports to Cabinet 3rd March 2008- Revenue Budgetary Control Report – Position at 31st December 2008
 - ~ Reports to Cabinet 3rd July 2008 - Revenue Budgetary Control Outturn Report for 2007-2008
 - ~ Reports to Audit Committee 30th June 2008 – Statement of Accounts (for year ended 31st March 2008)

Examination by Statutory Officers:

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

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Item 8

REPORT TO AUDIT COMMITTEE
24th SEPTEMBER 2008

REPORT OF DIRECTOR OF
RESOURCES

Portfolio: STRATEGIC LEADERSHIP

ANNUAL REVIEW OF TREASURY MANAGEMENT 2007-08

1.0 SUMMARY

1.1 The purpose of this report is to review the performance of the Council's Treasury Management activities during the 2007-08 financial year.

2.0 RECOMMENDATIONS

2.1 That performance and compliance with the approved Treasury Management Strategy in 2007-08 be noted.

3.0 TREASURY MANAGEMENT REVIEW

3.1 Council initially approved the Local Code of Practice for Treasury Management Activities (the Local Code) in December 2002. This was reviewed in 2005-06, following changes to regulations governing treasury activities and Council subsequently approved a revised Local Code in September 2005 that took into account these developments.

3.2 This code encouraged local authorities to put into place formal policies and practices, strategies and reporting arrangements for the effective management and control of Treasury Management activities.

3.3 Included in the agreed clauses for incorporation into the Council's formal processes, was the requirement to produce:

- a) an annual Treasury Management Strategy in advance of the commencement of the year, and:
- b) a report on performance against this in an Annual Report by 30th September the following financial year.

3.4 The attached report sets out details of the Council's performance and compliance with the strategy approved by Council in February 2006 (minute C. 69/06 refers) and details the effects of the decisions taken and the transactions executed in the past year. The report confirms that the Council fully complied with its approved strategy, treasury management practices and Local Code in 2007-08. Key aspects of performance in 2007-08 that should be noted are as follows:

- The policy of ensuring that **long-term borrowing** and the **capital financing requirement** are at broadly the same level was diverged from with figures of **£18.284m** and **£13.834m** respectively. This was as a result of the voluntary set aside of **£5m** of unapplied capital receipts during 2007-08 to reduce the CFR. This will have a knock-on effect for 2008-09 of reducing the MRP by £200,000. During 2008-09 the capital receipts applied in 2007-08 will be used to finance the capital programme, which will return the CFR back to the 1 April 2007 position.

- ❑ There was no rescheduling of debt during the year due to the PWLB changing its structure of interest rates so that any repayment of PWLB debt will have a more penal repayment rate applied. Hence, the average rate of interest paid on external debt remained at **6.01%** during the year.
- ❑ Average rate of return achieved on investments was **5.76%** - which is **0.17%** greater than the benchmark comparator of **5.59%**.
- ❑ Compliance with all prudential indicators in accordance with the Prudential Code for Capital Finance in Local Authorities.

4.0 RESOURCE IMPLICATIONS

The specific resource implications and financial performance of the Council's Treasury Management activities are set out in detail in the Annual Review of Treasury Management 2007-08 Report.

5. CONSULTATIONS

The content of the report has been developed in consultation with Butlers - the Council's external Treasury Management consultants. No other specific consultations were deemed appropriate or necessary.

6. OTHER MATERIAL CONSIDERATIONS

Links to Corporate Objectives/Values

- 6.1 Effective treasury management activities provide support towards achievement of the Council's business and service objectives. The principal direct link is to the corporate value of *'being responsible with and accountable for public finances.'*

Risk Management

- 6.2 The Local Code contains detailed guidance on the management of risk associated with the Council's treasury activities. The successful identification, monitoring and management of risk are the prime criteria by which the effectiveness of its treasury management activities will be measured. Treasury management activities in 2007-08 continued to be focused on securing principal sums invested.

Legal and Constitutional

- 6.3 The annual review is prepared in accordance with the constitutional requirement that 'reports will be prepared on Treasury Management policies, practices and activities, including an annual strategy and plan in advance of the year, and *an annual report will be presented after the close of the financial year to Council*, in the form prescribed in TMP's' (Part 4 Rules of Procedure – Financial Regulations).

7. OVERVIEW AND SCRUTINY IMPLICATIONS

The report will be subject to normal Overview and Scrutiny arrangements.

8. List of Appendices

1. Annual Review of Treasury Management 2007-08

Contact Officer: Harold Moses (Head of Financial Services)
Telephone No.: (01388) 816166 ext. 4385
E-Mail Address: hmoses@sedgfield.gov.uk
Ward(s): Not Ward Specific

Background Papers:

Code of Practice for Treasury Management Activities - Council 20th December 2002
 Review of Local Code of Treasury Management Practices – Council 30th September 2005
 The Treasury Management Strategy 2007-08 – Council 29th February 2008

Examination by Statutory Officers

	Yes	Not Applicable
1. The report has been examined by the Councils Head of the Paid Service or his representative	✓	
2. The content has been examined by the Councils S.151 Officer or his representative	✓	
3. The content has been examined by the Council's Monitoring Officer or his representative		
4. The report has been approved by Management Team		

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ANNUAL REVIEW OF TREASURY MANAGEMENT

2007-08

1. Introduction

- 1.1** The purpose of this report is to review the performance of the Council's Treasury Management activities during the 2007-08 financial year in accordance with Treasury Management Practice (TMP) Number 6 "Reporting Requirements and Management Information Arrangements".
- 1.2** The Council's Constitution (Part 4 Rules of Procedure – Financial Regulations) requires that an annual report be presented after the close of the financial year in the form prescribed in TMP's.

2. Performance Against the Strategy

2.1 Long Term Borrowing from the Public Works Loan Board (PWLB)

The objective set out in the Strategy was to continue the policy of ensuring that the level of external debt and the capital financing requirement were broadly at similar levels. This can be achieved by a combination of loans being repaid at the end of their normal loan period and prematurely redeeming other debt, if it is appropriate to do so.

The capital financing requirement and external PWLB loan debt at 31st March 2008 was **£13.834m** and **£18.284m** respectively, which diverged from the initial policy. Whilst the debt figures have remained stable, there was an opportunity to voluntarily reduce the CFR and thereby reduce the annual MRP revenue charge.

There was not a requirement for any long term borrowing from the PWLB during the year to facilitate any debt rescheduling in this year.

An analysis of the PWLB Loan Debt as at 31st March 2008 is attached at **Appendix A**.

2.2 Premature Redemption of Debt

Debt rescheduling opportunities were constantly monitored throughout the year, taking into account interest rate fluctuations and recommendations made by our external Treasury Management Consultants.

The Council's level of external debt and the capital financing requirement diverged during the year due to the voluntary set aside of £5m unapplied capital receipts, which will be used to finance the 2008-09 capital programme.

Debt restructuring opportunities will continue to be monitored in order to identify opportunities to reduce the Council's long term financing costs. In November 2007 the PWLB changed its structure of interest rates so that any repayment of PWLB debt will have a more penal repayment rate applied. HM Treasury have been asked to review this arrangement, which may make debt rescheduling a more attractive option.

The Council holds net premiums and discounts amounting to **£0.861m** on its balance sheet (as a prepayment) relating to debt restructuring exercises conducted in previous years. In line with proper accounting practices, these premiums are being charged to the appropriate revenue accounts over a number of years. As at 31st March 2008, the General Fund element of these pre-payments equates to **£0.403m** and the HRA share is **£0.458m**. Full provision is made in the budget framework for the annual charge to both the General Fund and HRA and summary details are provided in the following table.

Table 1: Premiums and Discounts charged to Revenue Accounts

Timescale	General Fund £000	HRA £000
1 – 2 years	32	177
2 – 5 years	98	229
5 – 10 years	164	52
More than 10 years	109	-
Total	403	458

2.3 Long Term Debt - Other than PWLB

The objective in the Strategy was to monitor money market rates, in order to be able to borrow additional sums within the overall borrowing limit, from sources other than the PWLB - had it been in the Council's best interests to do so.

It was not necessary to borrow from these sources during 2007-08.

The Council had **£0.316m** loans outstanding with financial institutions other than the PWLB on 31st March 2008 and there have been no significant changes in this amount during the year.

2.4 Summary – All Long Term Loan Transactions

An analysis of all long term loan transactions (both PWLB and non-PWLB) during 2007-08 is as follows:-

Table 2: All Long Term Loan Debt 2007-08

Type of Institution	Balance at 01.04.07 £m	New Borrowing £m	Normal Repayments £m	Premature Repayments £m	Balance at 31.03.08 £m
PWLB	18.317	-	(0.033)	-	18.284
Other	0.323	-	(0.007)	-	0.316
Total	18.640	-	(0.040)	-	18.600

NB: The Council's assets, against which the debt is effectively secured, have a book value of **£422m** at the 31st March 2008.

2.5 Investments

Officers assess the Council's cash flows on a daily basis, taking into account detailed forecasts of funds needed throughout the year, and invest surplus funds and in accordance with approved Treasury Management Practices (TMP's) and only to authorised counter parties meeting the Council's Investment Strategy. Excess funds that are held temporarily for only a few days, for cash flow purposes, are invested in three specific accounts - the Anglo Irish Bank, Alliance & Leicester or the Co-operative Bank – depending on which of these is offering the best rate of interest at the time.

The objective in the strategy was to optimise investment income in accordance with the Council's Treasury Management Statement by achieving a level of return greater than that which would have accrued if all surplus cash was invested at interest rates applicable to the average seven day investment rate, as quoted by the Council's nominated brokers.

The average seven-day compounded London Inter Bank Bid rate (LIBID) for 2007-08 was **5.59%**.

The actual return achieved by this Council during 2007-08 was **5.76%**, which is **0.17%** higher than the above comparator. In financial terms this equates to an additional £45,737 interest earned during 2007-08.

INVESTMENTS	<i>Target</i> %	<i>Outturn</i> %
Return compared with the 7 day LIBID Rate	+ 0.10	+ 0.17

Initial estimates for the total level of investment income earned in 2007-08 were set at **£1.410m**. Actual total investment income received during 2007-08 was **£1.520m** - £110,000 more than the budget - which reflects the higher level of interest being earned on investments following successive bank base rate increases.

The total value of investments at the start of the year was **£27.260m**, and this was gradually reduced during the year with investments of **£21.770m** as at 31 March 2008 in order to fund part of the capital programme in accordance with the Medium Term Financial Plan. An analysis of the investments is shown at **Appendix B**.

The initial budget for investments in 2007-08 was **£31m**. The actual level of investments at the year end was **£21.770m** due to a reduction in the anticipated level of capital receipts from land sales. This was attributable to the prevailing conditions in the housing market.

There was also **£5m** of unapplied capital receipts applied in 2007-08 to voluntarily reduce the Council's Capital Financing Requirement (see below).

2.6 Capital Financing Requirement

This figure represents the Council's underlying need to borrow for a capital purpose, and the change year on year will be influenced by the capital expenditure in the year and how much of this is supported directly through grants, contributions and capital receipts. The CFR is essentially a replacement of the former 'credit ceiling' mechanism, which is also a measure of the Council's underlying need to borrow for a capital purpose.

The Council's CFR for 2007/08 was as follows:

<i>Capital Financing Requirement</i>	<i>2007/08 Estimated Outturn £'000</i>	<i>2007/08 Actual Outturn £'000</i>
Housing	10,140	10,070
Non-Housing	3,694	3,764
Total CFR	13,834	13,834

There was **£5m** of unapplied capital receipts used in 2007-08 to voluntarily reduce the CFR. This will have a knock-on effect for 2008-09 of reducing the MRP by £200,000. During 2008-09 the reduction in the CFR caused by capital receipts being applied in 2007-08 will mean lower finance for the capital programme. As a consequence the CFR will to the 1 April 2007 position. The purpose of the exercise was to reduce the Council's near term MRP burden.

3. Economic Trends During 2007-08

- 3.1** The Council employs external Treasury Management Consultants to advise on the Treasury Strategy, provide economic data and interest rate forecasts, assist in planning and reduce the impact of unforeseen adverse interest rate movements. Throughout the course of the year the Council received weekly guidance and advice on interest rate changes from the external consultants and, together with cash flow forecasts and within approved TMP's, this was fully taken into account in determining investment decisions.
- 3.2** The Bank of England's monetary policy objective is to deliver price stability (i.e. low inflation) and to support Government objectives for growth and employment. Price stability is defined by the Government's inflation target of 2%. The Bank seeks to meet the inflation target by setting and adjusting the interest rate level. Lowering or raising the interest rate affects spending in the economy, which affects the level of inflation.
- 3.3** The 2007-08 financial year started with base rates at 5.25% and were increased by 0.25% to 5.50% in May 2007. Expectations about higher inflation prompted another 0.25% rate increase to 5.75% in July 2007. The credit crisis provoked a significant change in the Bank of England's assessment of UK economic prospects over the medium term. It was clearly concerned that the tightening of liquidity and the consequent rise in borrowing rates across the entire economy could lead to a rapid slowdown in activity. This would help to contain any inflationary pressures. Base rates were then reduced by 0.25% back to 5.50% in December 2007 and then in February 2008 to finish the year at 5.25%, where they remained until a further reduction during this financial year (2008-09) took the base rate to its current level of 5%.
- 3.3** The market was plunged into chaos in late August as the tightening of credit conditions undermined investor confidence. LIBOR rates rose to in excess of 6.5% as the reluctance of financial organisations to lend to one another resulted in a severe shortage of funds in the market. In the UK the crisis came to a head with the failure of Northern Rock Bank in September. Central Banks attempted to boost liquidity by injecting funds into the banking system with limited success, but the continuing uncertainty and reluctance amongst financial organisations to lend to each other, meant that the wide margin between official and market rates continued to the year end.
- 3.4** Long-term interest (PWLb) rates followed an erratic course throughout the year, but the overall trend was towards higher rate levels in the early months of the year. The flight to safer investments caused by the financial crisis reversed the increase and placed downward pressure on PWLB rates, which decreased, albeit erratically, towards the end of the financial year.

4. Compliance with the Council's Procedures and External Requirements

4.1 The Council fully complied with its internal procedures and the requirements of the CIPFA Code of Practice on Treasury Management during 2007-08. The Council was bound by the requirements of the Local Government Act 2003, which introduced 'The Prudential Code for Capital Finance in Local Authorities' (i.e. The Prudential Code) in April 2004.

4.2 The Prudential Code sets out a framework of self-regulation of capital spending, in effect allowing Councils to invest in capital projects as long as they are affordable, prudent and sustainable. In general terms, the Council complies with the Prudential Code by:

- Having medium term plans (Corporate Capital Strategy, Revenue and Capital Budgets);
- Having plans to achieve sound capital investment (Capital Strategies, Capital Project Appraisals and Asset Management Plans);
- Complying with the Treasury Management Code of Practice.

4.3 To support capital investment decisions, the Prudential Code requires the Council to agree and monitor a number of Prudential Indicators. These indicators are mandatory and cover capital expenditure, affordability, prudence, external debt levels and Treasury Management activities. The indicators are purely for internal use by the Council and are not to be used as comparators between Councils.

4.4 Council adopted and approved its prudential indicators in February 2007 as part of the 2007-08 Treasury Management Strategy. Actual performance against these indicators is shown in **Appendix C**, which demonstrates that all limits have been adhered to. A summary of the key controls surrounding the treasury and capital finance position is shown below:

	<i>Key Prudential Indicators</i>	<i>2007-08 Budget £'000</i>	<i>2007-08 Outturn £'000</i>
	Gross Borrowing	18,600	18,600
	Investments	(31,000)*	(21,770)
(1)	Net Borrowing	(12,400)	(3,170)
(2)	Capital Financing Requirement	13,834	13,834
(3)	Authorised Limit	30,000	18,600
(4)	Operational Boundary	22,000	18,600

(* Budgetary provision was made for significant capital receipts arising from housing land sales in 2007/08 that would lead to additional investment income in that year. Due to prevailing market conditions these sales did not proceed).

- The **Capital Financing Requirement** (CFR) in (2) above shows the Council's underlying need to borrow for a capital purpose. Under normal circumstances, actual borrowing should be broadly in line with the CFR. The table above shows that the Council's gross borrowing exceeds the CFR, due to **£5m** of unapplied capital receipts used in 2007-08 to voluntarily reduce the CFR. This position will correct itself in the following year.
- The **Authorised Limit** in 3) above is the statutory 'Affordable Borrowing Limit' required by Section 3 of the Local Government Act 2003. The table demonstrates that during 2007-08 the Council has maintained gross borrowing within its Authorised Limit.
- The **Operational Boundary** in 4) above is the expected borrowing position of the Council during the year, and periods where the actual position is either below or over the Boundary is acceptable subject to the Authorised Limit not being breached.

4.5 Treasury Management Practices set out in the Local Code establish strict controls governing the day-to-day investment activity of the Council. All investments in the year were made in accordance with these practices in terms of the authorised counter parties that the Council deals with and the maximum deposits applying to those individual institutions and the investment periods. An analysis of the investment maturity profile at the year-end is shown at **Appendix D**, which shows that 57% of investments were for periods of less than 12 months and at no point in the year were the limits and control totals set out in the Local Code exceeded.

5. Risk, Performance and Corporate Governance

- 5.1** The Council is aware of the risks of passive management of Debt and Investment and, with the support of Butlers, the Council's Treasury Management advisers, proactively manages the debt and surplus cash flows during the year.
- 5.2** As a result of the above, the Council was able to redeem high interest related debt and take advantage of lower interest rates prevailing in the market during the previous financial year – 2006-07. This led to a reduction in the average rate of interest on its outstanding long-term debt, from **6.40%** at the beginning of 2006-07 to **6.01%** at the end of that year. However, during 2007-08 the PWLB changed the structure of interest rates so that any repayment of debt will have a more penal repayment rate applied. Hence, the Council did not redeem any debt during 2007-08 and the average rate of interest on its outstanding long-term debt remained at **6.01%** throughout 2007-08.

LONG TERM DEBT	<i>Target %</i>	<i>Outturn %</i>
Change in average rate of interest paid on debt	- 0.20	0.00

- 5.3** In adopting the Local Code, the Council has agreed a low risk strategy to only invest its surplus cash in a limited number of Banks and Building Societies. This policy was determined in order to ensure that the Council is not at risk of losing funds by extending the number of organisations for investment to obtain higher returns.
- 5.4** The Council's investment return is predominantly determined by movements in base rates and therefore these returns can be volatile and, whilst the risk of loss of the investment is minimised through the lending list, accurately forecasting returns can often be difficult.
- 5.5** A Local Code of Treasury Management is published on the Council's website and the application of the TMP's contained within it fully supported the Local Code of Corporate Governance. Treasury management activities and decisions are underpinned by the key principles of good corporate governance – accountability; integrity; and openness and inclusivity. These are monitored and reviewed on a regular basis and the Corporate Governance dimension of risk management and internal controls underpins the whole TM function.

6. Treasury Management Consultants

- 6.1** Butlers were originally appointed as the Council's consultants in February 1999. They have continued to supply a high level of specialist advice throughout the year. The responsible officers remain satisfied with the level and quality of service provided by Butlers. In accordance with delegated powers and contract procedure rules, following consultation with the relevant portfolio holder, the Director of Resources agreed to extend the contract with Butlers to 31st March 2009.

7. Investments - Money Brokers and Instant Access Deposits

- 7.1** The Council has appointed three approved money brokers to act on its behalf. These brokers are responsible for securing the best interest rates available from the market for the investment of surplus loans. Investments are limited to the approved counter parties' list and control totals govern the maximum value of investments with each of these. In addition, the Council also operates three instant access deposit accounts (Anglo-Irish Bank, Alliance & Leicester and Co-operative Bank), which are used to invest smaller sums usually for very short periods.

- 7.2** All brokers work within a highly competitive environment and contact the Council on a daily basis to provide details of market rates applicable for different investment periods. The following table identifies the total number of investments in 2007-08, showing the number and total value of deals per broker and by deposit account type: -

Table 3: All Total Investments 2007-08

Investment Type	Number of Deals	Value of Deals (£'000)	Percentage of Overall Deals (%)
Fixed Investments via Brokers			
Tullet Prebon (UK) Ltd	9	8,500	5
Martin Brokers (UK) plc	10	9,500	6
Tradition (UK) Ltd	13	11,500	7
Direct Dealings (Co-op Bank)	9	18,000	5
	41	47,500	23
Instant Access Deposit Accounts			
Anglo Irish Bank	117	49,230	65
Co-op Bank	15	3,030	8
Bank of Scotland	8	3,850	4
	140	56,110	77
Grand Total	181	103,610	100

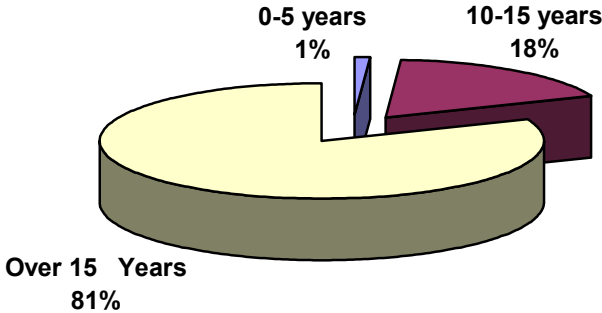
- 7.3** Officers are satisfied with the service received from Tullet Prebon (UK) Ltd, Martin Brokers (UK) plc and Tradition (UK) Ltd. Their performance is continually reviewed to ensure that they are maintaining their competitiveness.

8. Conclusions

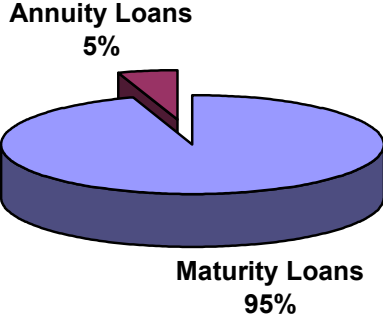
- 8.1** The Council has maintained the level of external debt in line with its capital financing requirement. It has also achieved a satisfactory return on its investments during the 2007-08 financial year, whilst operating within the approved borrowing limits at all times.
- 8.2** It can therefore be concluded that the Treasury Management activities undertaken during 2007-08 met all of the strategic aims and objectives set out by the Council at the beginning of the year.

ANALYSIS OF PWLB LOAN DEBT AS AT 31 MARCH 2008

Period to Repayment Within:-	Amount Repayable £
Within 1 Year	35,975
1 - 2 Years	38,491
3 - 5 Years	132,540
6 - 10 Years	3,260,628
Over 15 Years	14,816,167
	18,283,801



Loan Type	Amount Outstanding £
Maturity Loans	17,373,125
Annuity Loans	910,676
	18,283,801



APPENDIX B

SEDGFIELD BC – SUMMARY OF INVESTMENTS AS AT 31/03/08

Date of Loan	Borrower	Value (£)	% Total	Interest Rate	Loan Period (Days)	Date Repaid
BANKING SECTOR						
08/06/05	HSBC Bank PLC	5,000,000	22.97%	5.51%	6Year 6mth.Callable Deposit	Optional every 6months
04/10/05	Royal Bank of Scotland	2,500,000	11.48%	5.30%	5Year 6mth.Callable Deposit	Optional every 6months
21/10/05	Toronto Dominion Bank	2,000,000	9.19%	5.38%	5Year 6mth.Callable Deposit	Optional every 6months
	LONG TERM INVESTMENTS	9,500,000	43.64%			
N/a	Alliance & Leicester (Money Market A/c)	2,270,000	10.43%	5.70%	N/a	N/a
	SUB TOTAL – BANKING SECTOR	11,770,000	54.07%			
BUILDING SOCIETIES						
27/06/07	EBS	1,000,000	N/a	6.25%	364	25/06/08
12/07/07	EBS	1,000,000	N/a	6.22%	277	14/04/08
	Sub Total – EBS	2,000,000	9.18%			
14/09/07	National Counties	750,000	N/a	6.48%	364	12/09/08
05/10/07	National Counties	750,000	N/a	6.30%	185	07/04/08
	Sub Total – National Counties	1,500,000	6.89%			
15/10/07	Hinckley & Rugby	1,000,000	N/a	6.17%	364	13/10/08
06/12/07	Hinckley & Rugby	500,000	N/a	6.25%	364	04/12/08
	Sub Total – Hinckley & Rugby	1,500,000	6.89%			
08/01/08	Manchester	1,000,000	4.59%	5.71%	181	07/07/08
15/11/07	Progressive	1,000,000	4.59%	6.28%	274	15/08/08
30/11/07	Stroud & Swindon	1,000,000	4.59%	6.63%	123	01/04/08
14/12/07	Loughborough	500,000	2.30%	6.20%	269	08/09/08
30/01/08	Vernon	500,000	2.30%	5.60%	62	01/04/08
11/01/08	Tipton & Colesley	500,000	2.30%	5.70%	202	31/07/08
17/12/07	Scarborough	500,000	2.30%	6.38%	170	04/06/08
	SUB TOTAL – BUILDING SOCIETIES	10,000,000	45.93%			
	SHORT TERM INVESTMENTS	12,270,000	56.36%			
	GRAND TOTAL	21,770,000				

APPENDIX C

CAPITAL EXPENDITURE AND THE CAPITAL FINANCING REQUIREMENT***Capital Expenditure***

This indicator shows the overall capital spending plans of the Council over the medium term and reflects planned investment levels in line with the Corporate Capital Strategy.

<i>Capital Expenditure</i>	<i>2004-05 Actual</i>	<i>2005-06 Actual</i>	<i>2006-07 Actual</i>	<i>2007-08 Budget</i>	<i>2007-08 Actual</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Housing	7,414	7,211	7,345	8,400	7,908
Non-Housing	4,550	7,882	8,109	11,600	10,218
Total	11,964	15,093	15,454	20,000	18,126

Capital Financing Requirement (CFR)

This figure represents the Council's underlying need to borrow for a capital purpose, and the change year on year will be influenced by the capital expenditure in the year and how much of this is supported directly through grants, contributions and capital receipts.

<i>Capital Financing Requirement</i>	<i>2004-05 Actual</i>	<i>2005-06 Actual</i>	<i>2006-07 Actual</i>	<i>2007-08 Budget</i>	<i>2007-08 Actual</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Housing	9,410	9,714	9,927	10,140	10,070
Non-Housing	10,846	9,433	9,380	3,694	3,764
Total CFR	20,256	19,147	19,307	13,834	13,834

Previous legislation required the Council to set aside a proportion of its capital receipts to repay debt, which has meant that the Council's debt levels have traditionally been falling year on year. However, with the introduction of the 'pooling system' for housing capital receipts from 1st April 2004, it is expected that debt levels will not significantly reduce.

LIMITS TO BORROWING ACTIVITY***Net Borrowing***

The first key control over the Council's activity is to ensure that over the medium term net borrowing will only be for a capital purpose. The Council needs to ensure that net external borrowing does not, except in the short term, exceed the CFR in the preceding year plus the estimates of any additional capital financing requirement for the following three years.

<i>Net Borrowing</i>	<i>2004-05 Actual</i>	<i>2005-06 Actual</i>	<i>2006-07 Actual</i>	<i>2007-07 Budget</i>	<i>2007-08 Actual</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Gross Borrowing	18,493	18,679	18,640	18,600	18,600
Investments	(14,593)	(28,580)	(20,000)	(31,000)	(21,770)
Net Borrowing	3,900	(9,901)	(1,360)	(12,400)	(3,170)

A further two prudential indicators control the overall level of borrowing: **Authorised Limit** and the **Operational Boundary**. These limits separately identify borrowing from other long-term liabilities such as finance leases.

Authorised Limit

This represents the limit beyond which borrowing is prohibited and reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is a statutory limit that the Council must determine in accordance with Section 3(1) of the Local Government Act 2003.

Operational Boundary

This indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure that the authorised limit is not breached.

<i>Authorised Limit</i>	<i>2004-05 Actual</i>	<i>2005-06 Actual</i>	<i>2006-07 Actual</i>	<i>2007-08 Budget</i>	<i>2006-07 Actual</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Borrowing	18,493	18,679	18,640	30,000	18,600
Long Term Liabilities	-	-	-	-	-
Total	18,493	18,679	18,640	30,000	18,600
<i>Operational Boundary</i>	<i>2004/2005 Actual</i>	<i>2005/2006 Actual</i>	<i>2006-07 Actual</i>	<i>2007-08 Budget</i>	<i>2007-08 Actual</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Borrowing	18,493	18,679	18,640	22,000	18,600
Long Term Liabilities	-	-	-	-	-
Total	18,493	18,679	18,640	22,000	18,600

AFFORDABILITY PRUDENTIAL INDICATORS

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

Ratio of Financing Costs to Net Revenue Stream

This indicator expresses the amount of interest payable on external debt and other debt management expenses (i.e. financing costs) as a proportion of the amount of income received from Government and local taxpayers (i.e. net revenue stream). The definition of net revenue stream for the HRA is based on the statutory definition which incorporates charges to the account under Part 4 of the Local Government and Housing Act 1989.

<i>Financing Costs to Net Revenue Stream</i>	<i>2004-05 Actual</i>	<i>2005-06 Actual</i>	<i>2006-07 Actual</i>	<i>2007-08 Budget</i>	<i>2007-08 Actual</i>
Housing	31.8%	44.8%	45.0%	39.6%	44.6%
Non-Housing	5.6%	0.5%	(2.0%)	(2.8%)	(3.6%)

Incremental Impact of Capital Investment Decisions on the Council Tax and Housing Rents

As the Council's capital programme is financed by Government allocations, external funding from partners, and from the Council's own resources, such as capital receipts, there is no requirement for the Council to borrowing to finance its capital investment over the medium term. As a consequence there are no additional financing charges to be absorbed by both the General Fund and Housing Revenue Accounts over this period. This is reflected in the following two indicators, which show the impact on Council Tax and Housing Rents.

<i>Incremental Impact of Capital Programme</i>	<i>2007-08 Budget</i>	<i>2007-08 Actual</i>
Council Tax at Band D	£0.00	£0.00
Council Tax at Band A	£0.00	£0.00

Incremental Impact of Capital Investment Decisions on Housing Rent Levels

Similar to the Council Tax calculation this indicator identifies the impact of the Housing Capital Programme on revenue budgets, expressed in terms of weekly rent levels. This reflects the revenue contribution that is made to support the Housing Capital Programme.

<i>Incremental Impact of Capital Programme</i>	<i>2007-08 Budget</i>	<i>2007-08 Actual</i>
Weekly Housing Rent	£0.00	£0.00

TREASURY PRUDENTIAL INDICATORS

The purpose of these Prudential Indicators is to contain the activity of the Treasury Management function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decisions, impacting negatively on the Council's overall financial position. Four Prudential Indicators are required under this category:-

Upper Limits on Fixed Interest Rate Exposure

This indicator provides the range within which the authority will manage its exposure to fixed rates of interest.

Upper Limits on Variable Interest Rate Exposure

This indicator provides the range within which the authority will manage its exposure to variable rates of interest.

Maturity Structure of Fixed Borrowing

This indicator measures the amount of fixed rate borrowing maturing at each period expressed as a percentage of total borrowing at fixed rate at the start of each period.

Maximum Principal Sums Invested for more than 1 year

The purpose of this indicator is to contain the exposure to the possibility that loss might arise as a result of seeking early repayment or redemption of sums invested, or exposing public funds to unnecessary or un-quantified risk.

Actual performance at the year end is as follows:

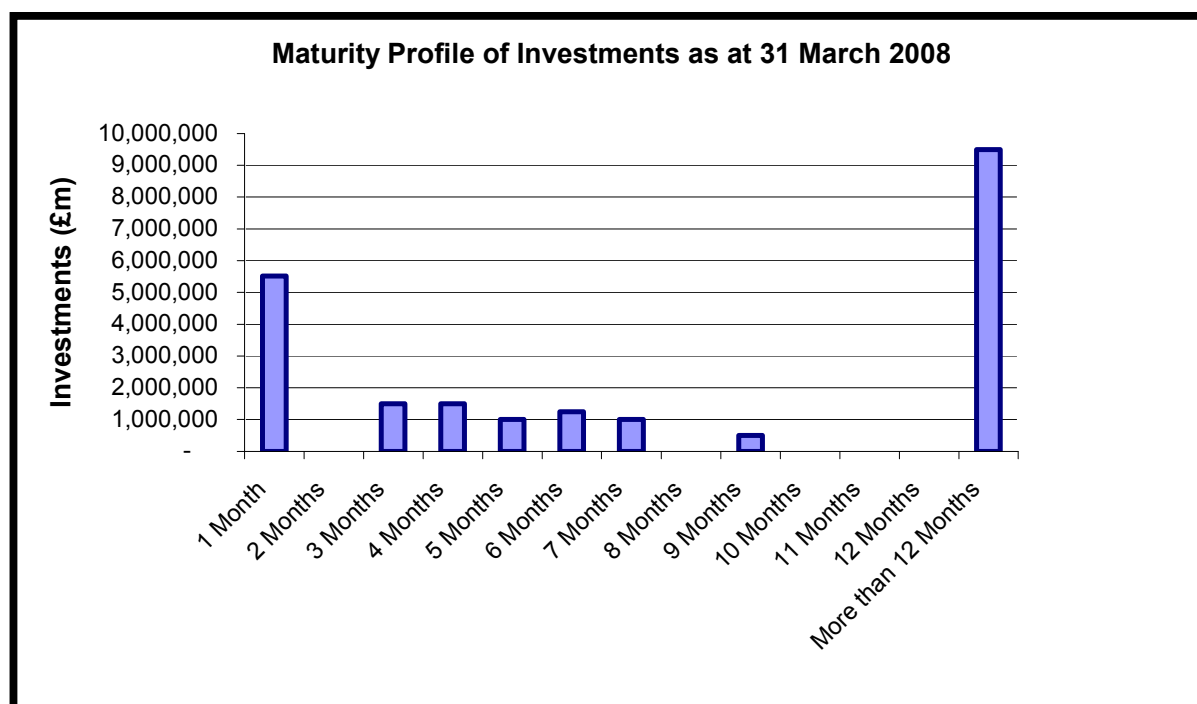
<i>Treasury Indicators</i>	<i>2007-08 % of debt Budget</i>	<i>2007-08 % of debt Actual</i>
Upper Limits on Fixed Interest Rates	100	100.0
Upper Limits on Variable Interest Rates	50	0.0
Maturity Structure of Fixed Borrowing		
Under 12 months	50	0.2
12 months to 2 years	50	0.2
2 years to 5 years	50	0.7
5 years to 10 years	50	17.8
10 years and above	100	81.1
Upper Limit on Principal Sums Invested for more than 1 year	£25m	£9.5m

As can be seen from the above table, all relevant limits and exposure ratios for interest, loan debt and investments were adhered to during the year.

APPENDIX D

MATURITY PROFILE OF EXTERNAL INVESTMENTS AT 31 MARCH 2008

Period to Maturity	Value of Investment (£)	% Total Investments
Up to 1 Month	5,520,000	25
2 Months	-	-
3 Months	1,500,000	7
4 Months	1,500,000	7
5 Months	1,000,000	5
6 Months	1,250,000	6
7 Months	1,000,000	5
8 Months	-	-
9 Months	500,000	2
10 Months	-	-
11 Months	-	-
12 Months	-	-
More than 12 months	9,500,000	43
	21,770,000	100%



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Item 9

AUDIT COMMITTEE

24th SEPTEMBER 2008

REPORT OF DIRECTOR OF RESOURCES

Portfolio: STRATEGIC LEADERSHIP

**Subject: INTERNAL AUDIT SERVICE -
INTERIM AUDIT REPORT FOR FIVE MONTHS ENDING 31st AUGUST
2008**

1. SUMMARY

- 1.1 The Internal Audit Plan for 2008-09 year was considered and approved by the Audit Committee on 15th April 2008. This report provides interim performance information for first five months of the year, with details of specific areas of work undertaken to the end of August 2008.

2. RECOMMENDATIONS

It is recommended that:

- 2.1 *Audit Committee notes the contents of the Internal Audit Interim Report 2008-09.*
- 2.2 *Recognition be given that increased flexibility will be required in the Audit Plan 2008-09 to deal with general uncertainty, risks and emerging issues as a result of reorganisation of local government in County Durham and LSVT of the housing stock, and that audit resources be directed accordingly for the remaining part of the year.*
- 2.3 *A further report be considered at a future meeting of this committee.*

3. AUDIT ACTIVITY APRIL 2008 TO AUGUST 2008

3.1 Background

- 3.1.1 The production of a comprehensive Audit Plan is an essential requirement for the delivery of an effective Internal Audit service. 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.

3.1.2 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 approved Audit Plan for 2008-09 scheduled a total of **808** days for the full year, with an estimated **337** days for the first five months of the year. Actual audit work carried out to the period ending 31st August 2008 totalled **257** days, resulting in a shortfall of **80** 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. For planning purposes the equivalent of 4 persons were assumed to deliver the work contained in the Audit Plan, but 3 persons were actually available to carry out audit work. This is explained further in section 3.3. The Audit team has also been actively helping with the development of audit arrangements for the new unitary authority.

3.2.3 There were **8** formal audit reports issued during the period with **2** confirming that there were satisfactory arrangements in place, with no recommendations.

3.2.4 Within the **6** reports issued where recommendations had been made there were a total of **9** classified as being of '**high**' importance, and **6** of '**medium**' importance.

3.2.5 All recommendations were made following detailed discussions and with the agreement of the appropriate service managers.

3.2.6 The Audit Plan for 2008-09 consists of **64** planned audit assignments, **8** of these have been completed, **5** are at the draft report stage, and **9** are currently in progress.

3.2.7 With regard to audit reports outstanding from the 2007-08 financial year, **6** were issued with **3** confirming satisfactory arrangements. Within the **3** reports containing recommendations, **6** were classified as of being '**high**' importance, and **3** of '**medium**' importance.

3.2.8 **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.

3.3 Staffing

3.3.1 The approved staffing establishment consists of an audit team of 5 staff to carry out actual audit work reporting to the Audit and Resources Manager and at the time the audit plan was approved the section was operating with 2 trainee auditor vacancies. The Audit plan for 2008-09 allowed for 4 persons to deliver the work contained in the plan, and it was envisaged that 1 of the 2 vacancies would be filled. Recruitment protocols now agreed by the Council's within County Durham

meant that this post remains, maintaining the existing audit team of 3 to carry out the work contained in the audit plan (and keeping 2 posts vacant).

- 3.3.2 As a consequence, audit work has been reprioritised accordingly during the year with greater emphasis given to areas of higher risk and therefore some audit assignments considered relatively lower risk will not be carried out. Importantly, emphasis will be given to ensure that all core financial systems are audited and any emerging areas of risk as a consequence of LSVT and local government reorganisation are given appropriate consideration.
- 3.3.3 Audit work on core financial systems has now commenced and will be given priority over the coming months. Some audits, such as those within housing services, will not be undertaken given the expected transfer of these operations to a new housing company before the end of this financial year, although audit work on housing rents, which is a core system, will be completed.
- 3.3.4 As previously reported to Audit Committee at its meeting on 15th April 2008, it was recognised that there would need to be some flexibility in the Audit Plan for 2008-09 to reflect changing priorities, risks and general uncertainty for the year ahead. Efforts will be made to ensure that audit resources and activity continue to be appropriately focused and directed to adequately deal with new issues and matters should they materialise.
- 3.3.5 The staffing arrangements and resource requirements are constantly being monitored to ensure that the Internal Audit function continues to maintain the standard of service. Budgetary provision exists to recruit temporary audit resources to support the audit team if required.

3.4 Quality Assurance Programme and Performance Management

- 3.4.1 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

3.4.2 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	2008-09 Target	2008-09 YTD
1.	Percentage of overall audit plan completed in year	90%	76%
2.	Percentage of audit recommendations accepted by client	100%	100%
3.	Percentage of planned audit assignments on 'core financial systems' completed in year	100%	0%
4.	Average customer satisfaction rating received [1]	4 = Good	4 = Good
5.	Average sickness absence per employee [2]	5	0
6.	Maintain service costs within budget	Yes.	Yes (savings of £15,951 to end August 2008)

Notes:

[1] Overall 100% rated the service as 'good' or 'very good'

[2] No sickness absence in the Audit Section in the first 5 months ending August 2008

3.5 Risk Management

3.5.1 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. Activity is directed toward providing assurances on the control environment and thereby highlighting any risk issues capable of causing damage to the Council.

3.5.2 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.

4 RESOURCE IMPLICATIONS

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

5. CONSULTATION

5.1 The Audit Plan for 2008-09 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 3.5 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 2008 to August 2008

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 2008/09, 15th April 2008

Examination by Statutory Officers

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

Summary of Audit Work April – August 2008

Chief Executives Department

Analysis of Mandays

Regularity & Systems Audits

Human Resources	0.00
Employment Training	0.00
Land Charges	0.00
Register of Interests/Hospitality	<u>0.00</u>
	<u>0.00</u>

Economic Development

Business Centres	0.00
Industrial Estates	0.00
Regeneration Initiatives	<u>0.00</u>
	<u>0.00</u>

TOTAL **0.00**

Formal Reports Issued	Recommendations	Risk Assessment
None		

Chief Executives Department – Issues Reviewed

Not applicable.

Summary of Audit Work April – August 2008

Housing Services

Analysis of Mandays

Property Services

Contractors' Final Accounts	3.00
Partnership Arrangement – Mears	<u>0.00</u>
	<u>3.00</u>

Management & Rents

Disturbance & Redecoration Allowances	0.00
Housing Management	11.25
Portable Data Capture System	5.00
Rent Accounting	0.00
Rent Arrears Management/Monitoring	<u>2.00</u>
	<u>18.25</u>

Other

Rechargeable Works	0.00
LSVT	<u>0.00</u>
	<u>0.00</u>

TOTAL **21.25**

Formal Reports Issued

	Recommendations	Risk Assessment
Contractors Final Accounts	None	N/A
Portable Data Capture System	None	Medium
Rent Arrears 2007/08	None	Medium

Summary of Audit Work April – August 2008

Housing Services – Issues Reviewed

1 Contractors Final Accounts

- Examination was carried out in respect of the contractor's final statement of account and working papers for 1 scheme.
- There were no errors identified in respect of the contracts reviewed.

2 Portable Data Capture System

- Controls in place for income, banking and customer account details were examined.
- Files containing portable data capture machine printouts, bank slips and cash summary sheets were examined for accuracy and completeness.
- Payments were satisfactorily agreed to the General Ledger and bank statements.
- Suspense accounts are reviewed regularly and cash posted to the correct accounts.

3 Rent Arrears 2007/08

- The objective was to examine systems and controls in place to deal with rent arrears – management, monitoring and accounting.
- The systems in place to manage rent arrears were found to be operating satisfactorily.
- There are policies in place dealing with the management of current and former tenants arrears which are reviewed and updated regularly.
- Management information available during the recovery cycle was found to be adequate.

Summary of Audit Work April – August 2008

Leisure Services

Analysis of Mandays

Leisure Centres & Pools

Ferryhill Leisure Centre	8.75
Newton Aycliffe Leisure Centre	0.25
Spennymoor Leisure Centre	0.50
Sildon Sunnydale Leisure Centre	0.75
Fitness Suites	0.00
Bars & Catering	<u>0.00</u>
	<u>10.25</u>

Other Leisure Activities

Green Lane Canteen	6.25
Torex System	<u>5.75</u>
	<u>12.00</u>

TOTAL **22.25**

Formal Reports Issued

	Recommendations	Risk Assessment
Ferryhill Leisure Centre	Yes	Medium
Newton Aycliffe Leisure Centre 2007/08	Yes	Medium / high
Green Lane Canteen	Yes	Medium

Summary of Audit Work April – August 2008

Leisure Services – Issues Reviewed

1 Ferryhill Leisure Centre

- The purpose of the review was to ensure that the systems to control income, expenditure, stock and cash on site are adequate and adhered to.
- Procedures are reviewed and updated annually and staff informed of changes where relevant.
- Appropriate training records are being kept up to date and monitored centrally.
- Different room hire and booking rates can be charged at the manager's discretion and recommendations were made to improve controls in this area.
- Stock records were reviewed and improvements suggested in the previous audit were reiterated.
- Staff access to the fitness suites was reviewed and it was confirmed that this would be classed as a taxable benefit if provided free of charge. The Council does not have a tax dispensation to offer free staff entry and therefore tax deductions would need to be made as appropriate.

2 Newton Aycliffe Leisure Centre 2007/08

- The objective of this audit was to ensure that the systems of internal control that are in place at the Leisure Centre are satisfactory.
- Cash on site relating to till floats and petty cash was matched to the general ledger.
- Income banked as per the waybills was confirmed to the paying in slips and bank statements apart from a few minor errors.
- Some improvements were recommended relating to the maintenance of the Lost Property Register and storage of inventory.

3 Green Lane Canteen

- Controls in relation to operations and income were examined during the review.
- Income is received and banked promptly and takings could be matched to the general ledger.

Summary of Audit Work April – August 2008

Neighbourhood Services

Analysis of Mandays

Regularity & Systems Audits

Building Regulations & Planning Fees	0.00
Carelink	13.50
CCTV	7.25
Concessionary Fares	0.50
Concessionary TV Licences	2.00
Fleet Management System	2.50
Home Improvement Agency	0.00
Homelessness	8.25
Horticulture	0.00
Licensing	0.00
Neighbourhood Wardens	0.00
Shop Improvement Grants	0.00
Trade Refuse Charges	<u>11.25</u>
TOTAL	<u>45.25</u>

Formal Reports Issued

	Recommendations	Risk Assessment
Carelink	Yes	Medium / high
CCTV	Yes	Medium / high
Concessionary TV Licences	Yes	Medium
Homelessness Service	Yes	Medium

Summary of Audit Work April – August 2008

Neighbourhood Services – Issues Reviewed

1 Carelink

- A review was carried out on the Carelink service which provides services to 6,200 clients within Sedgefield Borough, Teesdale and Wear Valley DCs under the Supporting People (SP) contract with Durham County Council.
- Audit work involved verifying charges levied, raising invoices, clearing of suspense accounts, database maintenance, vat treatment, inventories and debtor management.
- As part of the review involved testing a random sample of clients to determine eligibility, validity and accuracy of charges.
- Some recommendations were made to improve the maintenance of the database and improve financial controls including the need to have comprehensive documented procedures.

2 CCTV

- Work was carried out to examine current systems in place to monitor and maintain the CCTV service provided to internal and external customers.
- The review involved examining legal status of the service, contracts in place, income and expenditure, equipment maintenance and recording and reporting of incidents.
- Some recommendations were made to ensure operating procedures are documented and updated, training logs are maintained and that incident logs are comprehensively maintained.

3 Concessionary TV Licences

- A follow-up review was undertaken to ensure that issues and recommendations in the 2007/08 audit have been resolved and implemented.
- Not all of the recommendations had been implemented and internal audit advised that reconciliations be carried out between records held by the section and the general ledger.

4 Homelessness Service

- Internal Audit examined controls in place in respect of the service.
- Income and expenditure records were examined and some improvements were suggested which involved performing monthly reconciliations to the general ledger.
- Audit reiterated the need for development of a full set of comprehensive procedure notes covering the activities of the section.

Summary of Audit Work April – August 2008

Resources

Analysis of Mandays

Income Audits

Bank Reconciliations	0.00
Collection Section	7.50
Rent Interfaces Reconciliation	0.00
Emergency Receipts & Receipt Books	0.00
Cash Offices- Green Lane	3.50
Cash Offices- Ferryhill	0.00
Cash Offices- Newton Aycliffe	0.00
Cash Offices- Shildon	0.00
Postal Remittances	0.00
Recurring Receipts	<u>0.00</u>
	<u>11.00</u>

General Audits

Car Allowances	0.00
Car Leasing and Loans	0.00
Council House Sales & Mortgages	0.00
Financial Checks	9.25
Imprests & Floats Systems	2.00
Information Technology	0.00
Insurances	0.00
Inventories	2.25
Members Expenses	0.00
Parish Recharges	0.00
VAT Return	<u>2.00</u>
	<u>15.50</u>

Core Financial Systems Audits

Capital Accounting	3.00
Council Tax	1.00
Non - Domestic Rates	0.00
Treasury Management	1.00
Accounts Payable	0.00
Accounts Receivable	1.25
Payroll & Human Resources	2.50
Housing Benefits	<u>12.50</u>
	<u>21.25</u>

TOTAL	<u>47.75</u>
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Summary of Audit Work April – August 2008

Formal Reports Issued	Recommendations	Risk Assessment
Collection Section Bank Reconciliation 2007/08	None	Medium / high
Green Lane Cash Office	None	Medium
Council House Sales 2007/08	None	Low / medium
Accounts Receivable 2007/08	Yes	Medium
Payroll 2007/08	Yes	Medium / high

Summary of Audit Work April – August 2008

Resources – Issues Reviewed

1 Collection Section Bank Reconciliation 2007/08

- The audit involved examining systems of control for income and expenditure reconciliations and performance management.
- Reconciliations are performed monthly and were found to be up to date to the end of the financial year.
- Arrangements for taking payments over the telephone were reviewed in relation to data protection requirements and revised guidance is to be circulated to ensure full compliance.

2 Green Lane 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.
- The Collection and Deposit Book was up to date and the Collections' section reconciliation spreadsheet was also up to date.

3 Council House Sales 2007/08

- A review was carried out on systems for processing applications under the Right to Buy (RTB) scheme.
- Records held by Legal, Valuations, Housing and Accountancy were examined as part of the review and found to be satisfactory.
- Discounts for 10 properties sold under the RTB scheme were examined in detail and had been calculated correctly.

4 Accounts Receivable 2007/08

- The review examined systems and processes in place for accounts receivable.
- Operating procedures were reviewed and found to be operating satisfactorily. This included examining the raising of invoices, arrears management and monitoring, credit adjustments, write offs, cash in suspense and system interfaces.
- It was agreed that a number of outstanding debts should be written off which amounted to £6,847 in value.

5 Payroll 2007/08

- A review was carried on payroll systems and processes within the Authority.
- Operational procedures for the processing of payroll were examined and found to be satisfactory.
- Audit work involved examining starters, leavers, sickness, maternity/paternity pay, timesheets, national insurance numbers, working time regulations and access to records and information systems.
- A number of recommendations were made to improve controls, which included maintaining a comprehensive authorised signatories list and documenting and certifying changes to payroll records.

Summary of Audit Work April – August 2008

Summary of Mandays

CORPORATE STUDIES & PROJECTS

Corporate Work

Corporate Governance	0.00
Energy Management	26.25
Fraud and Corruption	0.00
LGR Assurance	0.00
NFI Data Matching Exercise	0.00
Performance Management	0.00
Procurement Compliance	0.00
Risk Management	0.00
Risk Register	0.0
Special Investigations	12.75
Statement of Internal Control / Governance	0.00
Partnership Governance	<u>0.00</u>
TOTAL	<u>39.00</u>

AUDIT POLICY & MANAGEMENT & CONTINGENCY DAYS

Chargeable Management

Audit Planning and Administration	15.00
Audit Management & Supervision	0.75
Enterprise Investment Grants	0.00
Advice & Consultancy	<u>8.25</u>
	<u>24.00</u>

Non - Chargeable Management

CFO Audit Sub-Group	4.75
Risk Management Sub-Group	0.25
External Training Courses & Seminars	20.00
Internal Training Courses & Seminars	21.75
Audit Committee Reports / Meetings	0.75
Other Working Groups	0.00
Section Meetings	6.00
Time Management System	<u>4.00</u>
	<u>57.50</u>

TOTAL	<u>81.50</u>
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Summary of Audit Work April – August 2008**AUDIT MANDAYS TOTAL**

Chief Executive	0.00
Housing Services	21.25
Leisure Services	22.25
Neighbourhood Services	45.25
Resources Department	47.75
Corporate Studies & Projects	39.00
Audit Policy & Management	<u>81.50</u>
TOTAL	<u>257.00</u>