

AUDIT COMMITTEE

Monday,
23 March 2009
5.30 p.m.

Conference Room 1,
Council Offices,
Spennymoor

AGENDA and REPORTS



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

العربية (Arabic)

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

বাংলা (Bengali)

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

(中文 (繁體字)) (Cantonese)

如欲索取以另一語文印製或另一格式製作的資料，請與我們聯絡。

हिन्दी (Hindi)

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

polski (Polish)

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

ਪੰਜਾਬੀ (Punjabi)

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

Español (Spanish)

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

اردو (Urdu)

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

AGENDA

1. **APOLOGIES**
2. **DECLARATIONS OF INTEREST**
To notify the Chairman if you have an interest in any of the following items.
3. **MINUTES**
To confirm as a correct record the Minutes of the meeting held on 24th September 2008. (Pages 1 - 4)
4. **AUDIT AND INSPECTION LETTER 2007/08**
Report prepared by the Audit Commission. (Pages 5 - 26)
5. **REVIEW OF HOUSING PARTNERSHIP ARRANGEMENT**
Report of Audit Commission.
6. **DRAFT INTERIM AUDIT REPORT**
Report of the Audit Commission. (Pages 27 - 36)
7. **ANNUAL GOVERNANCE STATEMENT 2008/09**
Report of Director of Resources. (Pages 37 - 48)
8. **INTERNAL AUDIT SERVICE - ANNUAL REPORT 2008 - 09 TO 1ST MARCH 2009**
Report of Director of Resources. (Pages 49 - 68)
9. **ANY OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT**
Members are respectfully requested to give the Chief Executive notice of items they would wish to raise under the heading not later than 12 noon on the day preceding the meeting, in order that consultation may take place with the Chairman who will determine whether the item will be accepted.

B. Allen
Chief Executive

Council Offices
SPENNYMOOR
13th March 2009

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

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Any person wishing to exercise the right of inspection in relation to this Agenda and associated papers should contact Mrs. Gillian Garrigan Spenny Moor 816166 Ext 4240 ggarrigan@sedgefield.gov.uk

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Item 3

SEDGEFIELD BOROUGH COUNCIL

AUDIT COMMITTEE

Conference Room 2,
Council Offices,
Spennymoor

Wednesday,
24 September 2008

Time: 5.30 p.m.

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

Apologies: Councillors T. Brimm and C. Nelson

AC.11/08 DECLARATIONS OF INTEREST
Members had no interests to declare.

AC.12/08 MINUTES
The Minutes of the meeting held on 30th June 2008 were confirmed as a correct record and signed by the Chairman.

AC.13/08 INTERIM AUDIT REPORT 2007/08
The Committee considered the above report prepared by the Audit Commission which summarised the results of its interim visit and included the findings of its triennial review of the Council's Internal Audit. (For copy see file of Minutes).

Paul Heppell from the Audit Commission was in attendance to present the report.

The report concluded that the Council had an effective control environment and strong budgetary control, which delivered considerable assurance that the accounts had not been materially misstated. The Council also had sound controls operating over the material financial systems that underpinned the production of the 2007/08 financial statements, however, the controls could be better evidenced.

With regard to the Council's Internal Audit Service, the review found that it mostly complied with the requirements of CIPFA's Code of Practice for Internal Audit, however, there were areas where compliance could have been better evidenced.

Members noted that the Commission's findings had been fed back to the Audit and Resources Manager and Accountancy Services Manager and remedial taken had been taken.

RESOLVED : *That the contents of the report be noted.*

AC.14/08**REVIEW OF CAPITAL EXPENDITURE 2007/08**

The Committee considered the above report prepared by the Audit Commission, which reviewed the Council's arrangements for managing housing capital projects. (For copy see file of Minutes).

Paul Heppell and Ross Woodley from the Audit Commission were in attendance to present the report.

The review had found that the Council continued to manage capital projects well and there were no issues that would prejudice the Commission's unqualified value for money conclusion. Tenant satisfaction remained high, averaging 86% which was above target and 56% of projects had been completed on time, compared to the national average of just 25%.

The Council had consistently kept overall capital spending within the capital budget. In 2007/08 the Housing Revenue Account capital programme had been underspent by 6% and the underspend on the last 16 projects completed had been just 1%, however, delays in processing compulsory purchase orders had held up the demolition of private houses, resulting in £4m of the general fund capital programme being re-phased to 2008/09.

Early indications were that the partnership with Mears was working well. High tenant satisfaction levels were being maintained, design, tender and mobilisation periods had been significantly reduced and there was a commitment to freeze prices throughout the three year contract.

The Commission had identified a few enhancements to good practice that may prove necessary to ensure capital projects continued to be managed well in 2008/09 when capacity would be stretched by preparations for Local Government Review and housing stock transfer.

Members' attention was drawn to the action plan detailed in Appendix 1.

RESOLVED : That the contents of the report be noted.

AC.15/08**STATEMENT OF ACCOUNTS (YEAR ENDED 31ST MARCH 2008)**

The Committee considered a report regarding the draft Annual Governance Report and the Final Accounts Memo produced by the Audit Commission, following the completion of its audit of the 2007/08 Annual Statement of Accounts. (For copy see file of Minutes)

It was noted that the audit of the Annual Statement of Accounts had now been completed and the District Auditor's draft Annual Governance Report on the audit had been circulated for Members' consideration. The report had identified two material errors and several non-trifling errors to the Statement of Accounts.

The accounts had subsequently been amended and Council's approval would be sought to agree the changes. Members were made aware of the fact that the changes were purely of a technical nature and had no impact on the authority's financial standing.

Details of the amendments were outlined at the meeting.

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

AC.16/08 ANNUAL GOVERNANCE REPORT 2007/08

Consideration was given to the above report prepared by the Audit Commission, which summarised the findings of its 2007/08 audit. (For copy see file of Minutes).

Ross Woodley from the Audit Commission was in attendance to present the report.

It was reported that the Commission expected to issue an unqualified opinion on the accounts subject to their re-approval by Council on 26th September 2008. The accounts presented for audit contained two material errors and several other non trifling errors, however, they did not have any impact on the bottom line. The reserves were as reported to Members in June 2008.

With regard to value for money, it was noted that the Audit Commission was also planning to issue an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

The Council had maintained adequate systems of internal control, risk management and financial management, despite the increased staff turnover brought about by the impending changes to the structure of Local Government in County Durham. Indeed, the good financial management systems had been further enhanced during the year.

RESOLVED : That the contents of the report be noted.

AC.17/08 ANNUAL REVIEW OF TREASURY MANAGEMENT ACTIVITIES 2007/08

Consideration was given to a report of the Director of Resources regarding the above. (For copy see file of Minutes).

The Annual Review of Treasury Management report set out details of the Council's performance and compliance with the Treasury Management strategy approved by Council in February 2007 and detailed the affects of the decisions taken and the transactions executed in the past year. The report confirmed that the Council had fully complied with its approved strategy, treasury management practices and Local Code of Practice in 2007/08.

Members' attention was drawn to the key aspects of performance.

RESOLVED : That the performance and compliance with the approved Treasury Management Strategy 2007/08 be noted.

INTERNAL AUDIT SERVICE - INTERIM AUDIT REPORT FOR FIVE MONTHS ENDING 31ST AUGUST 2008

Consideration was given to a report of the Director of Resources detailing interim performance information for the first five months of the year. (For copy see file of Minutes).

It was reported that 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 for the period ending 31st August 2008, totalled 257 days, resulting in a shortfall of 80 days less than planned. The reason for the shortfall was that the Internal Audit Section had been operating with staffing vacancies during the year. As a consequence audit work had been reprioritised to give greater emphasis to areas of higher risk and some audit assignments considered relatively lower risk would not be carried out. Priority would be given to ensuring that all core financial systems were audited and any emerging areas of risk as a consequence of LSVT and local government re-organisation were given the appropriate consideration.

It was pointed out that 8 formal reports had been issued during the period, with 2 confirming that satisfactory arrangements were in place, with no recommendations. 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. All recommendations made had been made following detailed discussions and with the agreement of appropriate service managers.

Members' attention was drawn to Appendix 1, which provided a brief summary of the audit work carried out.

- RESOLVED :**
1. *That the contents of the Internal Audit Interim Report 2008 to 2009 be noted.*
 2. *That the Committee recognises that increased flexibility will be required in the Audit Plan 2008/2009 to deal with the general uncertainty, risks and emerging issues as a result of re-organisation of local government in County Durham and LSVT of the housing stock and that audit resources will need to be directed accordingly for the remaining part of the year.*
 3. *That a further report be considered at a future meeting of the Committee.*

ACCESS TO INFORMATION

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

Annual Audit and Inspection Letter

Sedgefield Borough Council

Audit 2007/08

March 2009



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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.
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Key messages

- 1 This is our last Annual Audit and Inspection Letter before Sedgefield Borough Council ceases to exist on 31 March 2009. In this letter we comment upon the arrangements that are being put in place to manage the transfer of responsibilities to the new unitary council. We also draw attention to the specific key issues specific to the Council that should be considered by the new unitary council.
- 2 The Council's capacity to deliver its strategic priorities and maintain business as usual has been, and will continue to be, significantly weakened by the impact of impending local government reorganisation (LGR). In common with other LGR bodies nationally, increasing staff vacancies and secondments, coupled with limited opportunities for replacement mean that key skills and capacity shortfalls are developing within the Council. Two areas in particular will prove challenging for the council in its remaining few weeks specifically:
 - completing a large scale voluntary transfer (LSVT) of the Council's housing stock before vesting date; and
 - liaising with the new unitary council to ensure that arrangements are in place to enable the accurate and timely production of the Council's 2008/09 accounts.

Prospects for successful delivery of these important projects areas have been impacted by the recent loss of senior managers and finance staff in the last few months, primarily to Sedgefield Borough Homes.
- 3 In September 2008 we gave an unqualified opinion on the Council's accounts for 2007/08 and gave an unqualified conclusion on its arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 4 For the purposes of the final Comprehensive Performance Assessment we assessed the Council's use of resources arrangements as performing well - scoring 3 out of 4 overall. Given that this year's assessment represented a harder test incorporating some new requirements, and given the additional challenges posed by impending LGR, it is to the Council's credit that it has maintained its overall performance.
- 5 During the year we also carried out specific pieces of work on the Council's approach to access to services, health inequalities and absence management. We undertook these reviews on a county wide basis and our reports have identified a number of strengths and areas for improvement that could usefully be considered by the new unitary council.

Action needed by the Council

- 6 As the Council enters the final phase of its existence Members need to maintain an appropriate focus on delivering services - particularly as key staff take up posts in the new Council or elsewhere. The Council will wish to continue its focus upon securing deliver of its Transition Plan objectives (particularly the LSVT of its housing stock), meeting its statutory obligations and maintaining service performance. Approaches and tools to assist the Council in this process include:
- updating project and resource plans to take account of the loss of senior management and financial staff; and
 - continuous and timely prioritisation, switching resources from low risk and low importance tasks in order that core services and governance arrangements are maintained and key projects are delivered on time.
- 7 In addition the Council needs to liaise with the new unitary council, as well as other demising districts in the area, to ensure that a coordinated closure plan for the preparation of its 2008/09 accounts is produced, including details of responsibilities, resources and timing.
- 8 In terms of service performance there are a number of key issues arising from our work on access to services, health inequalities and managing sickness absence that will need to continue to be addressed by the new unitary council and we therefore suggest that our reports are made available to the new unitary council.

Purpose, responsibilities and scope

- 9 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the Council for 2007/08 and from any inspections undertaken since the last Annual Audit and Inspection Letter.
- 10 We have addressed this letter to members as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Council in meeting its responsibilities.
- 11 This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at www.audit-commission.gov.uk. In addition the Council is planning to publish it on its website.
- 12 As your appointed auditor I am responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, I review and report on:
 - the Council's accounts;
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
 - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 13 This letter includes the latest assessment on the Council's performance under the CPA framework, including our Direction of Travel report, and the results of any inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999. It summarises the key issues arising from the CPA and any such inspections. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 14 We have listed the reports issued to the Council relating to 2007/08 audit and inspection work at the end of this letter.

How is Sedgfield Borough Council performing?

15 Sedgfield Borough Council was assessed as Good in the Comprehensive Performance Assessment carried out in 2004. These assessments have been completed in all district councils and we are now updating these assessments, through an updated corporate assessment, in councils where there is evidence of change. However the opportunity for the Council to apply for an updated corporate assessment was not available once the LGR process commenced. The following chart is the latest position across all district councils.

Figure 1 Overall performance of district councils in CPA



Source: Audit Commission

Direction of Travel report

- 16 The Audit Commission undertakes Direction of Travel (DoT) work at each local authority body in England and Wales every year. The main purpose of this work is to assess the progress each council has made over the last year.
- 17 Direction of travel reports provide not just a commentary on past performance but they are also used to identify issues or areas of concern for the individual authority in the future. In the case of the Durham authorities however the implementation of local government reorganisation (LGR) means that the existing authorities will cease after March 2009. The approach being taken for district councils in Durham is:
- to use the DoT assessment to identify any risks and issues to help inform the new Durham unitary council; and

How is Sedgefield Borough Council performing?

- to produce a separate DOT report for each council which they have agreed can be shared amongst those councils in Durham subject to reorganisation for the purposes of informing the issues relevant to reorganisation.

Summary

- 18 Sedgefield Borough Council (The Council) comes to the end of its final year with some very good achievements. The prospect of abolition through local government reorganisation (LGR) has not distracted the Council from maintaining, and in some cases further improving, already high quality services, focusing on its priorities, while supporting workstreams for the new Council. It has continued to maintain its good performance, with 38 per cent of performance indicators (PIs) in the best 25 per cent, compared to 33 per cent nationally.
- 19 While performance was good and overall satisfaction with the Council remains high, performance has not been improving as fast as other councils. This is in line with the Council's strategy, in preparation for the new unitary, to concentrate on maintaining current performance, supporting staff and the new council through workstream leads and ensuring major projects continue to progress, rather than service improvement.
- 20 Those areas which have improved are planning, housing and environmental health. Corporate health, local environment, sustainable communities and transport are the areas improving less quickly than other councils.
- 21 Good progress is being made in major projects including redeveloping Newton Aycliffe town centre and Spennymoor leisure centre and a training centre partnership with Bishop Auckland College is proceeding well. However the current economic climate is expected to have an adverse effect on the Council's ability to generate capital receipts and progress development schemes planned with private sector partners.
- 22 The Council is heavily dependent upon manufacturing for its employment base, and job opportunities in the area have suffered in line with the general and prolonged decline in this sector of the economy. The Council's approach of improving the employability of the labour force and other labour supply initiatives has seen a steady increase in the rate of employment, but unemployment remains high and has fallen behind other coalfield areas nationally.
- 23 More recently the Council, in partnership with One North East, is gap funding the Durhamgate initiative which will see £200m invested on the former Black & Decker factory site to potentially house an additional 2,500 jobs in the area. However a number of other development schemes have slowed due to the current economic climate which puts future progress at risk. This is an area which the new council will need to tackle.
- 24 Value for money is generally good. Service standards and satisfaction are generally high and the Council has achieved its Gershon efficiency targets. Some improvements have been made in processing planning applications, council tax collection and repairs and maintenance. However the Council's sickness absence rates are high and this area will need to be kept under review by the new unitary council to ensure costs are reduced and service standards maintained.

- 25 Until recently the Council has retained its management team despite the uncertainty of LGR and this has enabled it to support the new unitary council through staff involvement in key workstreams as well as maintaining systems and developing performance monitoring for new national performance indicators.

What evidence is there of the Council improving outcomes?

- 26 Given LGR, the Council examined its priorities and rationalised them. It identified its priorities in its transition plan under the themes of Healthy Borough, Attractive Borough, Prosperous Borough, Strong Communities and Corporate Values and the key activities and projects required to achieve them. These are all on track with the exception of the regeneration of Hawkshead Place where the Council is considering implementing a HomeBuy Scheme to ensure sustainability during the current economic climate. Key projects include the following.
- The Council has largely completed preparations and secured funding for the LSVT of its 8,500 housing properties to a purposely established registered social landlord (RSL) - Sedgefield Borough Homes. As a direct result of this transfer an additional £100m will be invested in tenants' homes over the next five years in order to improve the quality of the housing stock.
 - Newton Aycliffe Town Centre master plan is progressing well with agreement to move remaining PCT services and library services to alternative premises to allow demolition and redevelopment. Preparation for other improvement works is underway including plans for a discount food store and a former supermarket unit has been let.
 - The Spennymoor Leisure Centre's redevelopment as an Arts Resource Centre including a café and theatre and sports facilities to provide opportunities for community development and cohesion, learning and skills acquisition and access to arts and cultural programmes is proceeding well but has had to be scaled down as the library move couldn't be agreed in time.
 - Planning approval has been gained for the 'Durhamgate' project, a major mixed use redevelopment providing offices, homes, a hotel and services on the Black and Decker site.
 - The extension work to the one stop shop Pioneering Care Centre with £750,000 lottery funding and £200,000 from the Council is imminent and in line with government policy on transfer of community assets.
 - The training centre partnership is proceeding well. It will mean a further education college in Sedgefield for the first time and links with Sunderland University. The Council were one of only ten in the country to win first round Local Enterprise Growth Initiative funding.
 - The Coalfields Housing renewal programme of demolition and regeneration focussed on Dean Bank, Ferryhill Station and West Chilton is making progress in property acquisitions, demolition and repairs.

How is Sedgefield Borough Council performing?

- Local Improvement Programme (LIP) – the LIP scheme was devised to devolve resources to the community to facilitate community led regeneration. The Council has funded £3m over the last 3 years, leveraging in a further £3m from other sources. These monies have been devolved to the five area forums resulting in 50 projects to date with 15 completed. The largest award to date is in respect of Ferryhill Town Youth Football club for £320,000, which levered in a further £720,000.
- 27** The Council performs well overall and has 38 per cent of PIs in the best 25 per cent compared to 33 per cent for other councils. Performance is improving but not as quickly as other councils nationally. Improvement in performance over the last three years has slowed in comparison to other councils and the Council ranks relatively poorly with only 40 per cent of performance indicators (PIs) improving. Overall satisfaction with the Council is still in the best 25 per cent. Because it is performing well, it is less easy to achieve further improvement so this may explain why improvement has slowed. Corporate health, local environment, sustainable communities and transport are the areas improving less quickly than other councils. Performance has improved for environmental health and planning where overall performance is not as good as other councils, and housing where overall performance is better than other councils. PIs in the worst 25 per cent which are not improving are as follows.
- Sickness absence, which remains high at 12.24 days per employee. The Council has employed consultants to deal with this and slight improvements have been made in 2008/09 has shown a decrease from the 2007/08 outturn.
 - The percentage of top five per cent of earners that are women, percentage of staff with disabilities or from black and minority ethnic communities all remain low. This is difficult for the council to tackle during LGR as it cannot employ new staff.
 - The recycling and composting rate reduced due to problems with the anaerobic digester owned by Premier Waste. However a new recycling scheme for cardboard and plastics is in place and rates rose to 23.39 per cent for the first six months of 2008/09.
- 28** PIs in the worst 25 per cent which are improving are:
- time to respond to complaints to the ombudsman;
 - percentage of council tax collected. Changes in staffing and technology have resulted in improved in-year collection rates;
 - time to decide major planning applications where an improvement plan has resulted in better processing times; and
 - time to complete non urgent repairs, where the partnership with Mears Group PLC has improved the service.
- 29** Our county wide access to service review highlighted a number of initiatives that Sedgefield Borough Council has in place to improve access and consider the needs of diverse communities.

How is Sedgefield Borough Council performing?

- The Sedgefield Information Service is a one-stop-shop where people can search or view map based data about a local area. This includes information on council tax rates, bin collection arrangements and planning applications.
 - The integrated housing teams where homelessness and social services work in a co-located office and are fully integrated.
 - Outreach leisure services have been set up in the east of the district where there are no council leisure centres.
- 30** Initiatives to reduce inequalities are having an impact. The Council, with its partners has achieved a significant outcome for its community in Trimdon which has moved out of the areas of severe deprivation this year, achieved through targeting resources on this area. The Council has also put £800,000 into neighbourhood enhancement programmes this year, topped up in areas of severe deprivation to further reduce inequalities
- 31** The Council has been working well with partners to improve community outcomes. In particular it has developed its training partnership to develop a further education college for the first time in Sedgefield, and has worked with the Primary Care Trust in delivering the Walking the Way to Health scheme and developing an alcohol harm reduction strategy.
- 32** Value for money (VfM) is generally good. Although the Council is relatively high spending compared to similar councils, this includes Neighbourhood Renewal Funding which is only given to England's most deprived local. High spend areas are in line with the Council's priorities. Service standards and satisfaction are generally good and in general quality is high. Areas which need improvement are tackled. For example changes to staffing levels and the introduction of new information technology systems meant there were small improvements in council tax collection rates, during 2007/08 which have increased in 2008/09. Planning turnaround times also improved in 2007/08. Recent changes made to the housing maintenance arrangements through the partnership with Mears Group PLC, a new capital and repairs and maintenance service have yet to achieve all the planned outcomes, but early indications are that the partnership is working well and tenant satisfaction has been maintained.
- 33** The council has exceeded its Gershon efficiency targets and has made savings across its functions, with cumulative savings of £1.62 million.
- 34** The Council has lost a high number of jobs since 1998 (15 per cent), but it has still managed to lower its worklessness slightly. Overall, the Council has the worst figures for job creation, low employment and high unemployment of the 59 authorities the Audit Commission looked at in analysing data for its national coalfields review. It has fallen behind the other 58 coalfield districts, reflecting the relatively high proportion of employment in the area within the manufacturing sector which has declined in recent years. This is an area that will need to be tackled.

How is Sedgefield Borough Council performing?

How much progress is being made to implement improvement plans to sustain future improvement?

- 35 The Council's Transition Plan brings together the priorities from its corporate plan and the Sedgefield Local Strategic Partnership Plan. It rationalises the Council's priorities, sets out clearly the arrangements for the management of the authority up to the handover period and how the Council will participate in the development of the new authority. It set out the Council's key priorities for service improvement, investment and savings during the transition period and the key capital projects to be progressed.
- 36 The Council has prioritised to ensure it has capacity to deliver plans and supported staff through training . It has not lost many key staff although it has committed more than 30 officers to relevant workstreams to help shape the development of the new council and this has reduced its capacity to develop services but it has maintained service levels in line with its transition plan. Establishment controls have been relaxed to allow temporary staff to fill the gaps. However sickness absence remains a problem which could threaten the quality of services. Although rates have reduced slightly from a high of 14.51 days per employee in 2007/08, they are still high at 12.24 days (quarter two 2008/09).
- 37 The Council has curtailed its Making Change Happen programme to allow it to focus on supporting the new unitary council while maintaining services, but VFM was reviewed throughout 2007/08. For example for council tax and benefits services were reviewed and improved in line with recommendations. The scrutiny function continues to function and transition plan updates are standing items on Management Team and Cabinet agendas.
- 38 Improvement plans are mainly limited to major schemes rather than service improvement, due to officers concentrating on maintaining service levels and preparation for the new Council. Good progress is being made in all of the capital schemes included in the transition plan including the regeneration of Sedgefield and Newton Aycliffe town centres, the one stop shop Pioneering Care Centre and the training partnership with Bishop Auckland College.
- 39 Performance management continues to be robust. The transition plan is monitored regularly and reviewed by management team. Quarterly monitoring of key performance indicators continues and systems have been updated to capture data for new national performance indicators.

Access to Services inspection

40 An inspection of access to services in County Durham covering all eight local councils in the county was undertaken in 2008. The inspection was not a detailed review of the approach taken by each individual district or the county council and therefore does not make judgements about individual councils or have scored judgements. The purpose of the inspection was to gain a county wide perspective on access to services and identify key issues for the new unitary council. The final report was published in July 2008 and the key findings were as follows.

- All councils in County Durham have a strong commitment to improve the way in which local people can access their services and they have taken a broad range of approaches. There is strong leadership across the county which is championing customer care, together with a genuine commitment and positive attitude to developing new approaches. All of the councils have had an explicit vision or priority to improve customer services for some time. However several councils have halted their improvement programmes due to LGR.
- All councils have made some good, but recent, progress but overall arrangements across the County are fragmented and lack coherence. Arrangements are still relatively underdeveloped compared to higher performing councils nationally. How easy it is to access services depends very much on where people live and whether their preferred contact method has been actively promoted by the council in that area.
- Front line customer service staff in all councils demonstrate genuine commitment to delivering a high quality service to the public and appear well skilled to handle enquiries efficiently. They also have good local knowledge.
- All councils demonstrate a genuine commitment to responding to the needs of local people but the overall approach is variable and knowledge of residents' access needs is mostly out of date. There is good engagement with some groups, for example, Gypsies and Travellers, faith networks, young people, area forums and tenant and residents groups. However councils do not consistently and proactively seek the views of people who do not access their services and work is only just beginning in this area.
- The councils generally work well with partners, but partnership working to allow cross-organisational access to services is generally under-developed.

The audit of the accounts and value for money

- 41 As your appointed auditor I have reported separately to the full Council on the issues arising from our 2007/08 audit and have issued:
- my audit report, providing an unqualified opinion on your accounts and value for money (VfM) conclusion on 26 September 2008; and
 - the report on the Best Value Performance Plan confirming that the Plan has been audited.

The key issues arising from the audit

- 42 The closure of the 2007/08 accounts was very challenging due to the significant demands placed on key officers, including:
- the introduction of a number of complex new accounting requirements;
 - ongoing involvement in LGR workstreams dealing with finance related issues; and
 - involvement in the Large Scale Voluntary Transfer (LSVT) project at critical times during the year.
- 43 Nevertheless the Council complied with statutory deadlines for approving and publishing the accounts and the quality of financial reporting was adequate. There were however a number of non-trivial errors which required amendment and re-approval of the accounts by the Council before the unqualified audit opinion was given. The detail behind these errors was reported to Council in September 2008, in our Annual Governance Report. These issues led us to reduce the use of resources score for the financial reporting element to level 2 (see below).
- 44 Looking forward the loss of key accountancy staff and the need to account for the complex LSVT of housing assets will make the 2008/09 closure equally challenging. This emphasises the importance of working closely with the new unitary council to prepare and implement a clear plan and programme for how the 2008/09 final accounts will be produced.
- 45 Overall the Council has good management arrangements for ensuring data quality and during the past year has made further improvements in a number of areas. Our testing of two national performance indicators for the speed of processing of housing and council tax benefit claims and the speed of processing of housing and council tax benefit changes found that they were fairly stated.

Use of Resources

- 46 The findings of the auditor are an important component of the CPA framework described above. In particular the Use of Resources score is derived from the assessments made by the auditor in the following areas.
- Financial reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
 - Financial management (including how the financial management is integrated with strategy to support council priorities).
 - Financial standing (including the strength of the Council's financial position).
 - Internal control (including how effectively the Council maintains proper stewardship and control of its finances).
 - Value for money (including an assessment of how well the Council balances the costs and quality of its services).
- 47 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows. These results will be published by the Audit Commission in March 2009.

Table 1 Use of resources scores

Despite the additional demands placed upon the Council due to the implementation of LGR, the Council has continued to maintain and, in some areas, strengthen its arrangements

Element	2007/08 assessment	2006/07 assessment
Financial reporting	2 out of 4	3 out of 4
Financial management	4 out of 4	3 out of 4
Financial standing	3 out of 4	3 out of 4
Internal control	3 out of 4	3 out of 4
Value for money	3 out of 4	3 out of 4
Overall assessment of the Audit Commission	3 out of 4	3 out of 4

Note: 1 = lowest, 4 = highest

- 48 The use of resources assessment continues to be a harder test with a number of new requirements to be met in 2007/08. Despite this, and the additional pressures and uncertainties created in the period leading up to LGR, the Council has improved or maintained its performance in most of the areas assessed. There was one issue which led to a reduction in the score for financial reporting, which is summarised in paragraph 43 above.

The audit of the accounts and value for money

- 49 This means that overall the Council is 'performing well' in its use of resources and has effective and embedded arrangements to deliver adequate or better performance across all those areas that have been assessed.
- 50 The Council is particularly strong at financial management, which received a level 4 score. Notable practice in this area included:
- conducting a self-assessment of budget holders during the year with very positive results; and
 - issuing quarterly accrued management reports to budget holders to illustrate the impact of financial performance on balance sheet items.
- 51 The Council has also managed a large capital programme well and the outsourcing of housing repairs and maintenance has not reduced service quality. Tenant satisfaction remains relatively high and time taken to complete housing repair work is low compared to other councils.

Local Risk Work

Managing sickness absence

- 52 In light of Sedgefield's high sickness absence statistics, in common with those of other council's in the area, the Commission produced a report in May 2008 on how well councils across Durham and Tees Valley manage sickness absence. The report indicated issues particular to each council, but also made a number of overall findings, which are relevant to the operation of the new unitary council. These are as follows.
- There were clear policies and procedures in place and comprehensive data available to monitor and improve sickness absence levels, but the application of the policies and procedures was inconsistent.
 - Those councils that were reducing levels of sickness tended to have a corporate focus on reducing sickness and good levels of timely information provided to line managers who were well supported in managing sickness.
 - Those most effective at reducing sickness absence placed responsibility with managers to provide information on a regular basis, although information was not always reported in a timely, consistent or comprehensive format or provided as required at different levels of the organisation.
 - Improvement was not consistently focused on challenging targets for services to reduce sickness absence.
 - The implications of high levels of sickness absence and hence the need for challenging targets were not well understood or communicated, with little understanding or attempt to understand individual departments' contribution to corporate targets.
 - Councils generally provided a good working environment with a good range of health and well-being initiatives in place for staff, although these were in some cases on an ad-hoc basis and are not always well communicated to staff.

- 53 At Sedgefield the 2007/08 average sickness peaked at 14 days per FTE, which was the highest in the County. The Council agreed an action plan with us to address the problem and introduced a new sickness policy to apply across all departments. Sickness is now reducing, partly due to the outsourcing of the housing repair service mentioned earlier, but remains relatively high and stubbornly above target.

Health Inequalities

- 54 The Audit Commission and Deloitte have been reviewing how organisations across the North East work together to address health inequalities and what the challenges are. Last year we looked at how councils, police, primary care trusts (PCTs), health trusts and other public sector bodies and the community and voluntary sector partners within areas across the north east were working together. This work concluded that in general, organisational partners were good at identifying the problem and agreeing priorities but less good at developing targeted strategies, commissioning and delivery of services and monitoring and evaluating.
- 55 As part of the final phase of our work we have reviewed how partners are working together to reduce alcohol harm in County Durham. This was selected for review in recognition of the significant issues arising from alcohol.
- Adults in the North East are more likely to drink heavily than adults in the rest of England.
 - There is a higher prevalence of 'hazardous' or 'dependent' alcohol consumption in the North East than in other English regions.
 - There are higher rates of alcohol related morbidity in the North East among men and women than in the rest of England;
 - The overall cost of alcohol misuse in the North East is approximately £1billion per year.
 - All the Durham Districts have higher rates of hazardous, harmful and binge drinkers than nationally.
- 56 The review has assessed how agencies are addressing the challenges and working together to reduce health inequalities and the harm caused by alcohol. The report focuses on the outcomes of that work and will feed into a region-wide report on health inequalities.
- 57 Recent developments and activity is promising.
- There has been increased mainstream investment of £1.3 million this year and £1 million next (amounting to £4.66 per head of population across Durham County) and a focus on strengthening the arrangements across all agencies. It is too early to see the results of this effort but the key elements necessary to achieve the huge changes needed are in place or developing.
 - Needs assessment has identified gaps in services and informed the investment of sustainable funding to address this agreed priority. Good progress is being made. Arrangements are being strengthened in line with national recommendations and local piloting has been used to evaluate initiatives before they are rolled out across the county.

The audit of the accounts and value for money

- Sustainable funding has been secured to support initiatives but there is still some short-term funding which could result in valuable expertise being lost. There are still gaps in services particularly specialist inpatient services.
- Considerable effort is being made to target services on the areas identified through joint needs assessment, but much of the information is based on estimates and needs to be strengthened by collecting actual alcohol consumption data. The proposed new GP enhanced service should strengthen the identification of needs and subsequent treatment including hard to reach groups.
- Accountability within the partnership groups is clear and performance relating to high level national targets is monitored.

58 However there are areas that require further development.

- Agreement of a new County wide commissioning strategy to target outcomes that reduce the harm caused by alcohol.
- Reduced reliance on nationally recognised estimates of alcohol consumption by collecting local data to more accurately inform service plans and coverage.
- Strengthening of arrangements to ensure data quality between partners.
- Detailed performance measures and targets to ensure that commissioned services deliver the required outcomes to reduce the harm caused by alcohol.

59 The links between the health and community safety aspects of alcohol related harm are clear in partnership arrangements and strategies. There is wide representation across all partners. However not all agencies have a named alcohol lead and front line staff across the County need to be trained to use the new audit tool and brief interventions to address alcohol misuse.

Looking ahead

- 60 The Council will be all too well aware that Sedgefield Borough Council will demise on 31 March 2009, and may therefore question the relevance of a section in this letter devoted to 'Looking Ahead'. However:
- even in the short period remaining to vesting day there are important projects and responsibilities that remain to be delivered; and
 - some members will continue to represent the Sedgefield public through their role in the new Unitary council or activity within the local political parties.
- I therefore felt it appropriate to provide some comment on the coming few months and beyond, some of which summarises issues already raised early in this letter.
- 61 The key focus for the Council throughout the LGR period has been to ensure that service performance and standards of conduct and probity are at least maintained, if not improved. It is commendable that this has been largely achieved to date and that no significant failure of service have occurred to date. However as vesting day approaches the pressures and risks will increase, not least through the quickening erosion of capacity as staff leave or are seconded into the new organisation.
- 62 It is therefore crucially important that the Council maintain its effort to secure the objective of seamless handover and maintained service. This will require:
- dynamic and rigorous evaluation of risks, to track and respond to developing issues which 'flare up', together with robust action plans to address them;
 - frequent and timely performance monitoring updates, so that early warnings are provided of developing 'pressure points' and diminishing services;
 - refinement and delivery of plans to ensure that staff resource shortfalls are addressed, so that sufficient capacity is maintained in all key areas; and
 - actively engage the new Unitary Council to clarify responsibility, plans and timetables for the closure of the 2008/09 accounts. It is perhaps surprising that even at this relatively late stage, we are unable to confirm some of the basic arrangements for accounts closure, including crucially the role of the new Unitary Council and its officers.
- 63 With regard to the audit work programme, we will not be carrying out an assessment of the Council's use of resources arrangements for the 2008/09 financial year. We will however audit the Council's financial statements for the year ending 31 March 2009 and give our conclusion on the adequacy of your arrangements for securing economy, efficiency and effectiveness of the Council's use of resources. We expect to report our value for money conclusion and opinion on the 2008/09 accounts, along with our 2009 Annual Audit Letter to the new unitary council in September 2009.
- 64 In the final months of the Council's existence we will continue to work closely with officers to ensure that any remaining audit work is completed and reported efficiently.

Closing remarks

- 65 This letter has been discussed and agreed with Brian Allen (Chief Executive). A copy of the letter will be presented at the full council on 27 March 2009. Copies need to be provided to all Council members.
- 66 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

Table 2 Reports issued

Report	Date of issue
Audit and inspection plan	March 2007
Interim audit memorandum	May 2008
Review of sickness absence	May 2008
Access to Services Inspection Report	July 2008
Annual Governance Report	September 2008
Opinion on financial statements	September 2008
Value for money conclusion	September 2008
Final accounts memorandum	September 2008
Review of capital expenditure	September 2008
Annual audit and inspection letter	February 2009

-
- 67 In a period of significant change, we remain grateful for the Council's continuing positive and constructive approach to audit and inspection work. With this in mind we wish to thank the Council's staff for their support and cooperation during the audit. We would also like to take this opportunity to wish the staff and members of the Council well for the future.

Availability of this letter

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

Marion Talbot
Comprehensive Area Assessment Lead

Cameron Waddell
District Auditor

March 2009

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

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

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk

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Interim Audit Report

Sedgefield Borough Council

Audit 2008/09

Date: **March 2009**

DRAFT

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DRAFT

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.

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 As the Council demises on 31 March 2009 our work has been focused at addressing issues that you need to resolve urgently to ensure an effective transition together with issues of continuing relevance to the new unitary authority.

DRAFT

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.

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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 informs the testing strategy adopted for the final accounts audit, which we plan to start in July 2009.

7 We carried out a detailed review of budgetary control and reviewed a sample of internal audit jobs 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 stage three above on these areas:

- general ledger; *
- payroll;
- creditors;
- benefits;
- rents; *
- sundry debtors;
- cash receipting; *
- council tax; * and
- NNDR.

Stage four was applied to the four systems with an asterisk above in accordance with our cyclical plan.

Main conclusions

- 8 The Council's objective of ensuring business as usual right up until vesting date appears to have been achieved as controls are operating similarly to previous years. This is commendable given the significant level of vacancies which the Council has carried in its final year and also the extent to which staff were diverted on to LGR projects. However, we did find that three of the five recommendations relating to internal control that we included in our 2007-08 interim audit report had not been addressed.
- 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 2008-09 financial statements.

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Main conclusions

Detailed findings

- 10** Rent arrears may be inaccurate because right to buy sales are no longer checked following completion to ensure that the rents system accurately records the date the tenancy is terminated. We found a £60 over-billing as a result of an incorrect RTB date being entered on the rent accounting system (ORCHARD) from a test of all sales completed by 31 January 2009. There is a risk that further errors may have arisen for RTB sales completed in the final two months resulting in tenants being billed incorrectly.
- 11** The Council is not following up the action plans that we agree with them to ensure that agreed improvements take place. Table 1 illustrates that three of the five recommendations in respect of financial management and internal control, which we made in our 2007/08 Interim Audit Report were not implemented by the agreed dates.

Table 1 Follow-up of Previous Reports

3 recommendations were not implemented

Recommendation from action plan	Consequence of agreed action not being implemented.
Ask Democratic Services 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.	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.
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.	Accountancy perform various monthly or weekly reconciliations for all feeder systems to the general ledger to demonstrate that interfaces have transferred correctly, but the reconciliations were not always clearly evidenced. A control book summarising the interfaces made did not clearly indicate the balances transferred or the officers responsible for the reconciliation.
Departments will be reminded to forward journals and recharge forms promptly to Accountancy.	Any delays processing journals and recharges make management information less up to date.

Source: 2007/08 Interim Audit Report

Recommendations

- R1** Check that the date of all right to buy sales completed in February and March 2009 have been recorded correctly in the rent accounting system before the database is transferred to the registered social landlord.
- R2** Ensure that implementation of action plans agreed with auditors during 2008/09 is monitored by the new unitary authority.

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Appendix 1 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	Financial Management and Internal Control					
8	R1 Check that the date of all right to buy sales completed in 2008/09 has been recorded correctly in the rent accounting system before the database is transferred to the registered social landlord.	3	Director of Resources			
8	R2 Ensure that implementation of action plans agreed with auditors during 2008/09 is monitored by the new unitary authority.	2	Audit and Resources Manager			

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23rd March 2009

**REPORT OF
DIRECTOR OF RESOURCES**

Portfolio: STRATEGIC LEADERSHIP

Annual Governance Statement 2008/09

1. SUMMARY

- 1.1 The Account and Audit Regulations 2003 and 2006, requires the Council to ensure that its financial management arrangements are adequate and effective and that there is a sound system of internal control in place which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.
- 1.2 The Regulations also require the Council to conduct a review at least once a year, of the effectiveness of its system of internal control.
- 1.3 To facilitate this requirement, the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) have produced guidance for Local Authorities to follow. Individual Heads of Service and Directors have been requested to review their current internal control and governance arrangements and a Corporate Annual Governance Statement (AGS) covering all aspects of the Council's activities has now been compiled.
- 1.4 The AGS will eventually be incorporated into this Council's Annual Statement of Accounts (SOA) which will be considered by the new authority in due course after the final accounts have been completed later this year.
- 1.5 A Statutory Instrument has recently been issued, which requires those Councils that are to be abolished with effect from 1st April 2009, to approve a Statement of Internal Control for the 2008/09 financial year, prior to their demise.
- 1.6 The purpose of this report is therefore for this Committee to review the content of the Annual Governance Statement, prior to its submission to the Council on 27th March 2009. Any comments that this Committee may have on the content of the Statement will be conveyed to the Council for its consideration.

2. RECOMMENDATION

- 2.1 That the Audit Committee approves the Annual Governance Statement for 2008/09, as shown in the Appendix, and recommends its acceptance by Council

3. BACKGROUND

- 3.1 Regulation 4 of The Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006, requires the Council

to conduct a review at least once a year of the effectiveness of its system of internal control and to prepare an appropriate statement in accordance with “proper practices”.

3.2 “Proper practice” for the purpose of the Annual Governance Statement is set out in the CIPFA/SOLACE framework document “Delivering Good Governance in Local Authorities - Guidance Note for English Authorities”. This document suggests the form and content of a governance statement to meet the requirement to prepare and publish a statement on internal control in accordance with the above regulations.

3.3 The Framework document suggests that the governance statement should include the following information:

- An acknowledgement of responsibility for ensuring there is a sound system of governance (incorporating the system of internal control).
- An indication of the level of assurance that the systems and processes that comprise the Council’s governance arrangements can provide.
- A brief description of the key elements of the governance framework.
- A brief description of the process that has been applied in maintaining and reviewing the effectiveness of the governance arrangements, including some comment on the role of :

The Council
The Executive
The Audit Committee
Internal Audit
Other explicit review/assurance mechanisms

- An outline of actions taken, or proposed, to deal with significant governance issues, including an agreed action plan.

3.4 The Framework also points out that it is important to recognise that the governance statement covers all significant corporate systems, processes and controls, spanning the whole range of the council’s activities, including in particular those designed to ensure that:

- The Council’s policies are implemented in practice.
- High quality services are delivered efficiently and effectively.
- The Council’s values and ethical standards are met.
- Laws and regulations are complied with.
- Required processes are adhered to.
- Financial statements and other published performance information are accurate and reliable.
- Human, financial, environmental and other resources are managed efficiently and effectively.

3.5 The Governance Statement is therefore expected to cover performance issues – good governance promoting good service but poor service performance reflecting a failure of governance.

- 3.6 Consequently, the Framework document suggests that approval and ownership of the governance statement should be at a corporate level and should be confirmed by the most senior officer and the most senior member signing the statement on behalf of the Council.
- 3.7 Equally, it goes on to point out, that the review and approval of the governance statement by a member group separately from the accounts will help ensure its robustness and reinforce its corporate standing. They must therefore be satisfied that the document is supported by reliable evidence and accurately reflects the internal control environment.
- 3.8 As a result of the re-organisation of Local government in some areas of the Country with effect from 1st April 2009, the Government has introduced a number of transitional arrangements for those authorities affected to implement.
- 3.9 Usually the Annual Governance Statement, which incorporates a Statement of Internal Control, is prepared and considered by the Council after the end of the financial year and as part of the arrangements to approve the Council's Statement of accounts, normally at the end of June.
- 3.10 As a number of authorities will be abolished from 1st April 2009, the Government require those authorities to prepare and approve an up to date statement of the way in which their financial affairs are controlled internally (a Statement of Internal Control) prior to their demise
- 3.11 Any ongoing or incomplete audit issues at 31st March 2009 will be discussed and handed over to the appropriate officers of Durham County Council.

4. ANNUAL REVIEW PROCESS

- 4.1 A group of senior officers with involvement in corporate management, who have been tasked with monitoring the Council's governance arrangements, met to consider how to provide the necessary assurance statement for the 2008/09 financial year, bearing in mind that this Council will be abolished on the 1st April 2009. This group subsequently prepared a draft AGS highlighting appropriate Transition Plan issues and any other areas of concern they were aware of. This draft was circulated to the Chief Executive, Directors and Heads of Service for comments/approval and any comments received were considered and a revised AGS was then produced.
- 4.2 The group also reviewed evidence submitted by the Audit Resources Manager to demonstrate the effectiveness of the system of internal control, which is also recommended best practice. The review included the following:
- A self assessment measuring Internal Audit compliance with the CIPFA Code of Practice for Internal Audit in Local Government, which was issued in 2006.
 - The Audit Commission's Use of Resources score on the Internal Control theme.
 - The Audit and Resources Manager's Interim and draft Annual Reports to the Audit Committee on the internal audit activities throughout the year.
 - Customer satisfaction survey results.
- 4.3 The work undertaken by the LGR Workstreams, with appropriate involvement of the Council's officers, has effectively provided another layer of governance in terms of

identifying risk issues and implementing appropriate actions to maintain/improve services and associated governance.

5. CORPORATE ANNUAL GOVERNANCE STATEMENT

- 5.1 As mentioned above, the resultant Corporate Annual Governance Statement for the 2008/2009 financial year is attached to this report as an Appendix.
- 5.2 In accordance with the CIPFA/SOLACE guide and best practice, the statement covers the following areas.
- The scope of responsibility
 - The purpose of the governance framework
 - The governance framework itself
 - A review of its effectiveness
 - Outstanding issues from previous statements
 - Any significant governance issues
- 5.3 Whilst the statement is generally very positive, there are a number of issues identified in the document where there is recognition of the importance of having sound internal control and governance arrangements in place at the new Council during 2009/2010 to improve the governance environment, in particular in connection with some of the Council's Transition Plan projects and in dealing with ongoing issues involved in the re-organisation of local government in the County.

6. RESOURCE IMPLICATIONS

- 6.1 There are no financial issues arising directly from this report.

7. CONSULTATIONS

- 7.1 Directors and Senior Officers from all Departments have been involved in the production and approval of this Statement.

8. LINKS TO CORPORATE OBJECTIVES/VALUES

- 8.1 Reviewing the effectiveness of the Council's systems of internal controls ensures that the following corporate values have been addressed.
- Being responsible with and accountable for public finances.

9. RISK MANAGEMENT

- 9.1 If the Council is not able to demonstrate to the Audit Commission that it has effective systems of internal control and governance arrangements in place, or any weaknesses were not being addressed, it would inevitably have a detrimental effect on any Comprehensive Area Assessment (CAA) review by the Audit Commission.
- 9.2 If there were not adequate control arrangements in place, there is the possibility of financial losses being sustained by the Council as a result of fraud, overpayments to creditors, loss of income etc., with such risks potentially continuing within the new authority.

9.3 If detailed procedural notes were not available to support the control environment, there could be a possibility that the business critical services provided by the Council could be affected by events such as a pandemic flu outbreak, a major fire or flood or utility supply disruption etc.

10. HEALTH AND SAFETY

10.1 No additional implications have been identified.

11. EQUALITY AND DIVERSITY

11.1 No additional implications have been identified.

12. LEGAL AND CONSTITUTIONAL

12.1 The Local Government (Structural Changes) (Further Transitional and Supplementary Provision and Miscellaneous Amendments) Regulations 2009 which has recently been introduced, requires Councils that are to cease to exist from the 1st April 2009 to approve a Statement of Internal Control for the 2008/09 financial year, prior to their abolition. The Council is therefore complying with its statutory responsibilities to produce this Statement.

13. OTHER MATERIAL CONSIDERATIONS

13.1 No other material considerations have been identified.

14. LIST OF APPENDICES

14.1 Appendix 1 Annual Governance Statement 2008/09

Contact Officer: Harold Moses
Telephone No: (01388) 816166 Ext. 4385
Email Address: hmoses@sedgefield.gov.uk

Ward(s) Proposals are not ward specific

Background Papers: Various Account and Audit Regulations
CIPFA/SOLACE Framework Document – “Delivering Good Governance in Local Government”

Statutory Instrument 2009 No. 276 - The Local Government (Structural Changes) (Further Transitional and Supplementary Provision and Miscellaneous Amendments) Regulations 2009.

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.	√	
2. The content has been examined by the Council's 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.	√	

SEDGEFIELD BOROUGH COUNCIL

ANNUAL GOVERNANCE STATEMENT 2008/2009

Scope of Responsibility

Sedgefield Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty, under the Local Government Act 1999, to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework *'Delivering Good Governance in Local Government'*. A copy of the Local Code is on our website at www.sedgefield.gov.uk or can be obtained from the Head of Financial Services. This Statement explains how the Council has complied with the Code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a Statement of Internal Control.

The Purpose of the Governance Framework

The Governance Framework comprises the systems and processes and culture and values, by which the authority is directed and controlled, and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of Internal Control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not

absolute assurance of effectiveness. The system of Internal Control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The Governance Framework has been in place at the Council for the year ended 31st March 2009 and this Governance Statement has been prepared immediately prior to the demise of Sedgefield Borough Council from 1st April 2009 as a result of the establishment of the new Durham County Council as a unitary authority.

The Governance Framework

The Council has maintained and developed comprehensive governance processes designed to ensure the achievement of objectives, quality of service and public accountability through proper systems of internal control and management arrangements. Key areas of good governance include the setting of strategic and operational objectives, quality performance management information, risk awareness, financial regulations compliance and internal check procedures, all supported by an appropriate management structure with supervision, delegation and accountability accepted as fundamentals.

The present governance arrangements include the following, and are subject to continuous improvement by management:-

- Regular establishment and review of the Council's priority areas, including both strategic and major operational activities.
- Comprehensive performance management processes to ensure targets are established and monitored on major activity areas.
- A Council Constitution which includes clear decision-making processes, responsibility for functions, a scheme of delegation, financial/budgetary/procurement regulations, codes of conduct and management structure.
- Ongoing development of risk management arrangements, to ensure both strategic and operational areas across the Council are addressed.
- Comprehensive budgeting processes supported by effective budgetary control information systems.
- Management review of operational performance efficiency.

- Well developed and controlled systems covering the Council's major financial activities.
- Financial performance reviews against forecasts, to ensure best use of available resources.
- Capital programme framework designed to maximise quality project delivery in accordance with the strategic visions of the Council.
- Project management principles applied to ensure project delivery compliant with expectations.
- Well developed and communicated codes of conduct for Members and Officers, supported by processes for declarations of interest.
- Maintenance of an Internal Audit service responsible for reviewing all significant resource and performance areas of the Council.
- Well developed consultative arrangements with the Audit Commission, which complement their statutory role in reviewing and reporting on the Council's control framework.
- Regulatory and review responsibilities maintained by the Council's Audit Committee.
- Responsibility for compliance with relevant laws, regulations and policies placed with senior managers, with Legal Section support as necessary.
- Comprehensive public complaints processes maintained.
- Well developed public consultation and communications strategies to ensure participation and accountability.
- Appropriate governance arrangements developed to cover major Council partnerships in existence around the Borough.

Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its Governance Framework, including the System of Internal Control. The review of effectiveness is informed by the work of the Directors and Heads of Service within the Council who have responsibility for the development and maintenance of the governance environment, the work of the Council's Internal Audit team and also by comments made by the Audit Commission in their role as the Council's external auditors and other review agencies and inspectorates.

Arrangements are in place to maintain and review the effectiveness of the Governance Framework. The Council's Constitution requires an annual review of the Governance arrangements to be undertaken and reported to Council as the "body charged with

Governance". The Audit Committee is also involved in reviewing the effectiveness of the Council's Governance arrangements when considering the progress being made by the internal audit team during the year in achieving the Annual Audit Plan objectives. A final report on the work of Internal Audit during 2008/09 was considered by the Audit Committee on 23rd March 2009.

Significant Governance Issues 2008/09

Transition Plan

The 2007/08 Governance Statement highlighted the major initiatives identified in the Council's Transition Plan and the importance of appropriate governance arrangements on the initiatives. The position on these is as follows:-

Housing Partnering Arrangements:

The partnering with Mears Ltd., for housing construction services, has operated since February 2008, and appropriate management and monitoring of performance has been developed during 2008/09.

Large Scale Voluntary Transfer (LSVT) of the Council's Housing Stock:

Following a positive result in the July 2008 LSVT ballot of tenants, intensive actions were undertaken, aimed at ensuring that Sedgefield Borough Homes (SBH) was established from 30th March 2009. Project Teams for both the Council and SBH were established, supported by appropriate professional advisers. The Tenants Services Authority will be responsible for ensuring that the management, performance and governance of SBH are satisfactorily developed and maintained. From 1st April 2009, Durham County Council will be responsible for the monitoring of the Transfer Agreement to ensure that SBH meets its delivery promises made to tenants.

Coalfields Housing Renewal:

The renewal of the Borough's former coalfield areas is progressing well. The Council has worked with neighbouring local authorities regarding English Partnerships funding, and a Joint Venture Collaboration agreement is almost in place.

This work will be incorporated within a wider New Growth Points programme across South and East Durham.

New Training Service and Centre for the Borough:

The transfer to Bishop Auckland College was completed in November 2008. A new governance structure has been agreed for monitoring progress against the main project vision and objectives. A Construction and Skills Sub-Committee will be established as part of the overall College Corporation. The nomination will be 4 / 4 split between SBC (then the Durham County Council as the successor authority) and Bishop Auckland College.

Redevelopment of Newton Aycliffe Town Centre:

The regeneration of Newton Aycliffe town centre is progressing well.

Round-table discussions between the town centre owners, Durham County Council, Sedgefield Borough Council, County Durham PCT and District Valuers continue to agree a series of property transactions to facilitate next phase of redevelopment.

Arts Resource Centre:

Design work on the Arts Resource Centre within Spennymoor Leisure Centre has progressed well and physical works on site are expected to commence during March 2009.

Contractual arrangements with the Council's fitness suite partner Competition Line are integral to the development at Spennymoor, as well as to the further development of the fitness suites within Shildon and Ferryhill Leisure Centres. The proposals are to be considered shortly by Durham County Council.

The major financial implications on the partnership arrangements with Competition Line will require ongoing corporate governance review by the new authority

Other Governance Issues

Local Government Reorganisation in County Durham:

The Council's initial approach to strategic risk has been revised to better accommodate the requirements of the re-organisation of Local Government in County Durham from April 2009. Many of the most important issues affecting the Council will now be addressed by the various Workstreams established under LGR. All Workstreams are required to operate using sound risk management practice to address identified risks.

Major Financial Systems:

The Council's major financial systems have operated satisfactorily during the year and commitment to operate within a sound internal control environment, with fully reconciled

systems, has been maintained. It is understood that these important systems will continue to operate within the new authority for some time, before being replaced. It is essential, therefore, that the well developed and long-standing financial controls associated with these systems are maintained by the new authority.

The Council is working with the new authority to ensure risks in relation to financial systems, feeder systems, reconciliations, data, security of assets and accounts close down arrangements have been appropriately managed during the transition process.

ICT Security Policy:

A number of the documents that would form the overall ICT Security policy have been approved and introduced by the Head of ICT but there are still a number of other documents to complete.

This is an important issue for the new County Council to address and has been flagged up in the appropriate workstream for further consideration in a County wide context.

Treasury Management:

Following recent turmoil in financial markets, and potential investment losses faced by many public authorities (but not Sedgfield), the Council has reviewed its treasury management investment principles to provide an enhanced level of protection of assets.

Overall Governance Conclusion

We are satisfied that the Council has maintained and operated within a governance framework appropriate to the provision of services, throughout the financial year.

Signed on behalf of Sedgfield Borough Council:

Councillor Mrs. Agnes Armstrong (Leader of the Council)

Brian Allen, C.P.F.A. (Chief Executive)

Item 8

AUDIT COMMITTEE

23rd MARCH 2009

REPORT OF DIRECTOR OF RESOURCES

Portfolio: STRATEGIC LEADERSHIP

Subject: INTERNAL AUDIT SERVICE – ANNUAL REPORT 2008-09 TO 1ST MARCH 2009

1. SUMMARY

- 1.1 The requirement for an Internal Audit function derives from local government legislation, including section 151 of the Local Government Act 1972 which requires authorities to “make arrangements for the proper administration of their financial affairs”. Proper administration includes Internal Audit. More specific requirements are detailed in the Accounts and Audit Regulations 2006, in that a relevant body must “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”.
- 1.2 The Internal Audit Plan for 2008-09 year was considered and approved by the Audit Committee on 15th April 2008 (Minute ref: AC.30/07). An interim audit report on the work undertaken for the first 5 months of the year was considered by the Audit Committee on 24th September 2008 (Minute ref: AC.12/08). Normally a report would be presented to this Committee after the end of the financial year, but as this Council will be abolished on 31st March 2009, this is not possible. This report therefore provides performance information for the first 11 months of the financial year, with details of specific areas of work undertaken in the latter part of the year. The report has been prepared in accordance with standards defined in the CIPFA Code of Practice for Internal Audit in Local Government 2006.

2. RECOMMENDATIONS

It is recommended that:

- 2.1 Audit Committee notes the contents of the Internal Audit Service Annual Report 2008-09 to 1st March 2009.

3. AUDIT ACTIVITY APRIL 2008 TO MARCH 2009

3.1 Background

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

responsible for obtaining assurance in respect of the control environment, part of which comes from the work and opinion of Internal Audit.

3.2 Annual Audit Plan

- 3.2.1 The Internal Audit Section produces an Annual Audit Plan based on an assessment of risks in relation to audit areas and allocates its resources accordingly. The approved Audit Plan for 2008-09 scheduled a total of **808** days for the full year. Actual audit work due to be carried out up to week ending 1st March, 2009 totalled **559** days resulting in a shortfall of 249 days less than planned.
- 3.2.2 The reason for the shortfall in audit days is that the Internal Audit Section has been operating with staffing vacancies during the year. As a consequence, audit work was prioritised during the year with greater emphasis given to areas of higher risk to ensure that Internal Audit was able to complete work in these areas and provide a sufficient opinion on the adequacy of the control environment, with particular emphasis given to completion of 'core' financial systems work.
- 3.2.3 There were **32** formal audit reports issued during the period 1st April, 2008 to 1st March, 2009 and **21** reports contained recommendations which required implementing by the Client Department.
- 3.2.4 Within the **21** reports issued where recommendations had been made there were a total of **45** classified as being of '**high**' importance, and **22** of '**medium**' importance.
- 3.2.5 All recommendations were made following detailed discussions and with the agreement of the appropriate service managers.

3.3 Audit Opinion

- 3.3.1 **Appendix A** provides a brief summary of actual audit work carried out and of matters identified as part of the work undertaken by the Internal Audit Section. These items are intended to give a flavour of the wide range of activities covered by the Audit team and the matters that may arise from the work performed. Members will note that the appendix shows that positive progress has been made in the resolution of the matters highlighted.
- 3.3.2 Based on the work undertaken during the year and the implementation by management of audit recommendations, Internal Audit can provide **reasonable assurance** that the Council's systems of internal control were operating adequately and effectively during 2008-09. There are **no** qualifications to this opinion.
- 3.3.3 The above opinion is derived from audit work undertaken, both planned and unplanned, which is detailed in **Appendix A**. Other sources of information, such as Audit Commission reports have also been taken into consideration where appropriate. Specifically, the level of assurance takes into account:

- All audit work completed in 2008-09;

- Follow up actions from previous years' audits;
- Management responses to findings and recommendations;
- Effects of significant changes in Council systems;
- Quality of Internal Audit Service performance.

3.3.4 There are no issues identified of such significance as to require disclosure in the Council's Annual Governance Statement for 2008-09.

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 Outturn
1.	Percentage of overall audit plan completed in year [1]	90%	59%
2.	Percentage of audit recommendations accepted by client	100%	100%
3.	Percentage of planned audit assignments on 'core financial systems' completed in year	100%	100%
4.	Average customer satisfaction rating received [2]	4 = Good	4 = Good
5.	Average sickness absence per employee [3]	5	0
6.	Maintain service costs within budget	Yes.	Yes (savings of £38, 550 expected)

Notes:

[1] This figures includes Audits due to be substantially completed by end March 09

[2] Overall 87% rated the service as 'good' or 'very good'

[3] No sickness absence in the Audit Section in 2008-09

3.5 Staffing

- 3.5.1 The Audit plan for 2008-09 allowed for 4 persons to deliver the work contained in the plan. The interim report on Internal Audit activity for the five months to 31st August 2008 explained that at the time the section was operating with 2 vacancies. It was envisaged that 1 of the 2 vacancies would be filled, however, recruitment protocols subsequently agreed by the Council's within County Durham meant that this post remained unfilled, maintaining the existing audit team of 3 to carry out the work contained in the audit plan (and keeping 2 posts vacant).
- 3.5.2 A further vacancy with the departure of a Principal Auditor on 1st November and the Audit team was operating with three vacancies. The staffing arrangements and resource requirements were reviewed to ensure that the Internal Audit function continued to maintain the standard of service and that appropriate resources were in place to ensure that 'core' systems work was completed.

3.6 Risk Management

- 3.6.1 Risks are identified in each individual audit report produced. However, no system of review can give full assurance that all risks have been minimised and all controls have been operating effectively throughout the year. The Annual Audit Report therefore provides reasonable assurance based on the work that has been carried out.
- 3.6.2 The audit planning process aims to target the work of the Section to those areas where the impact of a control failure would have the highest impact and leave the Council vulnerable to major risks. Activity is directed toward providing assurances on the control environment and thereby highlighting any risk issues capable of causing damage to the Council.
- 3.6.3 Internal Audit continued its close involvement in the development of the Council's approach to risk management. Efforts to embed risk management into the Council's processes have continued during the year and the Operational Risk Management Group considered 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

- 6.1 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 3.6 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 March 2009

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
2. Audit Committee, Interim Audit Report 2008-09 (first 5 months), 24th September 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 checked="" type="checkbox"/> | <input type="checkbox"/> |

Summary of Audit Work: April 2008 – 1st March, 2009

Chief Executives Department – Issues Reviewed

Not applicable.

No formal audit work was carried out during the year with regard to the services provided by the Chief Executive taking into account the level of perceived risk.

Summary of Audit Work: April 2008 – 1st March, 2009

Housing Services

Analysis of Mandays

Property Services

Contractors' Final Accounts	13.50
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Management & Rents

Housing Management & Voids	12.00
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Portable Data Capture	5.00
-----------------------	------

Rent Accounting	13.50
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	<u>30.50</u>
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Other

LSVT	6.50
------	------

Total	<u>50.50</u>
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Formal Reports Issued

Recommendations

Risk Assessment

April 2008 – August 2008

Contractors Final Accounts	None	N/A
----------------------------	------	-----

Portable Data Capture	None	Medium
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Rent Accounting	None	Medium
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September 2008 – March 2009

Housing Management	Yes	Medium/High
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Housing Management – Garages	None	N/A
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Housing Management – Voids	Yes	Medium
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Summary of Audit Work: September 2008 – 1st March, 2009**Housing Services – Issues Reviewed****1 Housing Management**

- Controls were examined relating to the allocation and letting of properties, as well as the collection of income.
- One recommendation was made to formalise the declaration of interest process.

2 Housing Management - Garages

- The system of control in respect of procedures, sold properties and VAT on garage tenancies was examined.
- No audit recommendations were made.

3 Housing Management – Voids

- The audit involved examining systems of control in respect of the management process for void properties i.e. terminations, inspections, repairs and recharges.
- Recommendations were made in respect of recording of property repairs and inspections on Orchard and for the Head of Property Services to provide an assessment update in respect of the void turnaround scheme.

This audit work was substantially completed but it is anticipated that the formal report will be issued in financial year 2009/10

- Rent Accounting (inc Rent Arrears Monitoring, Refunds and Rechargeable Works)

Audits Not Carried Out

The following work which was planned in the 2008/09 audit plan was not carried out due to work prioritisation:

- Partnership Arrangements - Mears
- Disturbance & Redecoration Allowances

Summary of Audit Work: April 2008 –1st March, 2009Leisure Services

Analysis of Mandays

Leisure Centres & Pools

Leisure Centre – FLC	8.75
Leisure Centre – NALC	10.50
Leisure Centre – SSLC	8.00
Leisure Centre – SLC	0.50
Leisure Centre - Fitness Suites	<u>0.50</u>
	<u>28.25</u>

Other Leisure Activities

Green Lane Catering	6.25
Torex System	<u>6.00</u>
	<u>12.25</u>

TOTAL **40.50****Formal Reports Issued****Recommendations Risk Assessment**April 2008– August 2008

Ferryhill Leisure Centre	Yes	Medium
Newton Aycliffe Leisure Centre 2007/08	Yes	Medium / High
Green Lane Canteen	Yes	Medium

September 2008 – March 2009

Newton Aycliffe Leisure Centre 2008/09	Yes	Medium/High
Sildon Sunnydale Leisure Centre	Yes	Medium
Torex	Yes	N/A

Summary of Audit Work: September, 2008 –1st March, 2009**Leisure Services – Issues Reviewed****1 Newton Aycliffe Leisure Centre**

- This audit involved reviewing the systems and procedures in place in relation to income, staffing, inventory, memberships and the cyber café.
- A number of recommendations were made to improve controls relating to bookings and memberships at the venue and the associated insurance and Health & Safety requirements, the application of the membership scheme including concessionary memberships, controls relating to petty cash and floats, stock controls and adherence to the Working Time Regulations

2 Shildon Sunnydale Leisure Centre

- This audit involved reviewing the systems and procedures in place in relation to income, staffing, inventory, memberships and the cyber café.
- A number of recommendations were made to improve the controls relating to staff who exceed the Working Time Regulations, bookings made at the venue, the associated insurance arrangements and charging applied, and the application of the membership scheme including free and concessionary memberships.

3 Torex System

- This review involved examining the systems of control in respect of receiving and reconciling income through the authority's Leisure Management System.
- A number of recommendations were made to improve controls in respect of the recording and reconciling the income received through the system and for staff to receive appropriate training in these areas.

The following work which was planned in the 2008/09 audit plan was not carried out due to work prioritisation:

- Spennymoor Leisure Centre
- Fitness Suites
- Bars & Catering

Summary of Audit Work: April 2008 – 1st March, 2009

Neighbourhood Services

Analysis of Mandays

Regularity & Systems Audits

Carelink System	13.50
CCTV	7.25
Concessionary Fares	2.00
Concessionary TV Licences	2.00
Fleet Management System	2.50
Home Improvement Agency	0.00
Homelessness	8.25
Shop Improvement Grants	1.75
Trade Refuse Charges	<u>11.25</u>
TOTAL	<u>48.50</u>

Formal Reports Issued

Recommendations Risk Assessment

April 2008 – August 2008

Carelink	Yes	Medium / High
CCTV	Yes	Medium / High
Concessionary TV Licences	Yes	Medium
Homelessness Service	Yes	Medium

September 2008 – March 2009

Concessionary Fares	No	Medium
Shop Improvement Grants	Yes	Low/Medium
Trade Refuse	Yes	Medium/High
Fleet Management System	N/A	N/A

Summary of Audit: Work September, 2008 – 1st March, 2009**Neighbourhood Services – Issues Reviewed****1 Concessionary Fare Scheme**

- Controls in place for the issuing of bus passes were reviewed.
- No recommendations were made.

2 Shop Improvement Grants

- A review of the shop improvement grant scheme was carried out.
- One recommendation was made for a record to be compiled showing grants which have been awarded by the authority and passed onto Durham County Council to ensure that grant monies can be monitored following LGR.

3 Trade Refuse

- Controls in place for trade refuse collections, income and stock were examined.
- A number of recommendations were made to improve controls relating to trade refuse agreements, collections and the subsequent charging for the service, for management checks to be introduced and for stock control to be improved.

4 Fleet/Fuel Management System

- Advice and guidance was provided by internal audit throughout the year on the setting up and monitoring of a new fuel management system.

The following work which was planned in the 2008/09 audit plan was not carried out due to work prioritisation:

- Building Regulations and Planning Audit
- Home Improvement Agency
- Horticulture
- Licencing
- Neighbourhood Wardens

Summary of Audit Work: April 2008 –1st March, 2009Resources

Analysis of Mandays

Income Audits

Collection Section	8.00
Cash Offices – Green Lane	3.50
Cash Offices – Ferryhill	3.00
Cash Office – Newton Aycliffe	1.00
Cash Office – Shildon	0.50
Postal Remittances	<u>3.50</u>
	19.50

General Audits

Car Allowances	1.75
Car Leasing and Loans	0.25
Financial Checks	17.25
Imprest & Float System	2.00
Inventories	3.75
Members Expenses	1.50
VAT Return	<u>2.50</u>
	29.00

Systems Audits

Capital Accounting	6.00
Council Tax	13.75
NNDR	18.75
Treasury Management	8.50
Accounts Payable	14.25
Accounts Receivable	7.25
Payroll	14.75
Housing Benefits	<u>25.25</u>
	108.50

TOTAL**157.00**

Continued - Summary of Audit Work: April 2008 –1st March, 2009

Formal Reports Issued	Recommendations	Risk Assessment
<u>April 2008 – August 2008</u>		
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
<u>September 2008 - March 2009</u>		
Ferryhill Cash Office	Yes	Medium
Newton Aycliffe Cash Office	Yes	Medium
Postal Remittances	Yes	Low/Medium
Car Allowances	No	Low/Medium
Members Allowances	No	Low/Medium
VAT Return	Yes	Medium
Capital Accounting	No	Medium
Council Tax	Yes	High
NNDR	Yes	Medium
Treasury Management	No	Medium
Payroll	Yes	Medium/High
Housing Benefits	Yes	High
Financial Checks	N/A	N/A
Imprest and Floats System	N/A	N/A
Inventories	N/A	N/A

Summary of Audit Work: September, 2008 – 1st March, 2009**Resources – Issues Reviewed****1 Ferryhill Cash Office**

- Controls in place at the Cash Office for cash floats, collections and banking, security and emergency receipts were examined.
- The Collection and Deposit Book was up to date and the Collections' section reconciliation spreadsheet in relation to this cash office was also up to date.
- One minor recommendation was made in relation to recording under and over bankings

2 Newton Aycliffe Cash Office

- Controls in place at the Cash Office for cash floats, collections and banking, security and emergency receipts were examined.
- The Collection and Deposit Book was up to date and the Collections' section reconciliation spreadsheet in relation to this cash office was also up to date.
- One minor recommendation was made in respect of the signing of documentation

3 Postal Remittances

- This audit examined the controls in place for receiving income through the post and its subsequent distribution to the appropriate sections within the authority.
- A number of minor recommendations were made in relation to the recording of postal remittance information and for performance to be monitored

4 Car Allowances

- Controls in place for the submission, authorisation and payment of car mileage claims were reviewed along with insurance and VAT arrangements.
- No recommendations were made.

5 Members Expenses

- Controls in place for basic pay, special responsibility and other member allowances were reviewed and a sample of claims were examined
- No recommendations were made.

6 VAT Return

- Controls in place in respect of the completion, checking and authorisation of VAT returns were reviewed.
- This work included checking a sample of invoices to confirm the coding of VAT and the VAT registration details.
- One recommendation was made to improve controls in respect of suppliers VAT registration numbers

7 Capital Accounting

- A review of the Capital Asset Register was carried out which included the identification and valuation of assets.
- The capital receipting system was also examined.
- No recommendation were made

8 Council Tax

- The purpose of the review was to examine the effectiveness of controls within the Council Tax system.
- Changes actioned by the Valuation office were found to be appropriate, as were property valuation request forms and information sources.
- Collection and arrears figures are reported to senior management regularly and are closely monitored.
- Two recommendations were made – one in respect of introducing periodic checks on individuals who receive Single Person discount and the other for suspense items to be regularly reviewed.

9 NNDR

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

10 Treasury Management

- The review was carried out to assess Treasury Management activity and ensure the Council policy regarding investment is being followed.
- There is an approved lending list and processes for fixed term investments, and a spreadsheet is maintained showing income and payments.
- Investments made were examined and controls were appropriate.
- Monthly activity transactions are reconciled to the FMS system and a performance report shows investment activity.
- No recommendations were made.

11 Payroll

- 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, access to records, information systems and procedures
- Recommendations were made to improve the authorisation process.

12 Housing Benefits

- The review examined the effectiveness of controls within the benefits system.
- Claims checking identified no discrepancies and overpayments can be identified.
- Backdated claims were assessed in accordance with benefit regulations and supported by appropriate documentation.
- Recommendations were made for a periodic reconciliation to be carried out on the debtors spreadsheet and the debt analysis report. Two other minor recommendations were made.

13 Financial Checks

- Examination was carried out in respect of Enterprise Investment Grants applications and also on individuals who expressed an interest in occupying shops/industrial units etc.

14 Imprest & Float System

- Checks were carried out on a sample of floats which are retained throughout the authority.

15 Inventories

- The internal audit section compiled inventory guidance and coordinated the completion of inventory records prior to LGR

The following work which was planned in the 2008/09 audit plan was not carried out due to work prioritisation:

- Rent interface reconciliation
- Car Leasing & Loans
- Emergency Receipts & Receipt Books
- Recurring Receipts
- Council House Sales & Mortgages
- Information Technology
- Insurance
- Parish Recharges

The following audit work is substantially completed but the formal report will be issued in financial year 2009/10:

- Accounts Payable
- Accounts Receivable
- Shildon Cash Office
- Bank Reconciliation
- Collection Section

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

Audit Planning & Administration	22.75
Audit Management & Supervision	53.75
Advice & Consultancy	<u>11.25</u>
	<u>87.75</u>

Non – Chargeable Management Time

CFO Audit Sub Group	11.25
CFO Risk Management Sub Group	1.50
External Training Courses & Seminars	34.50
Internal Training Courses & Seminars	39.50
Other Working Groups	0.25
Audit Committee Reports/Meetings	1.00
Section Meetings	9.00
Time Management System	<u>8.25</u>
	<u>105.25</u>

Total **193.00**

Corporate Studies & Projects

Energy Management	55.00
Special Investigations	14.50

Total **69.50**

AUDIT MANDAYS TOTAL

Chief Executive	0.00
Housing Services	50.50
Leisure Services	40.50
Neighbourhood Services	48.50
Resources Department	157.00
Audit Policy & Management	193.00
Corporate Studies & Projects	69.50

TOTAL **559.00**

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