

Annual Audit and Inspection Letter

Sedgefield Borough Council

INSIDE THIS LETTER

PAGES 2 - 9

- Executive summary
- Key messages
- Council performance
- Accounts and governance
- Other work
- Looking forward
- Closing remarks

PAGES 10 - 13

Appendices

- Appendix 1 - Reports issued during 2003/04
- Appendix 2 - Scope of audit and inspection
- Appendix 3 - Audit and inspection fee

Reference:	SE001 Annual Audit and Inspection Letter
Date:	December 2004

Executive summary

The purpose of this Letter

This is our Annual Audit and Inspection Letter for Members, which incorporates the annual audit Letter for 2003/04, and is presented by the council's relationship manager and district auditor. The Letter summarises the conclusions and significant issues arising from our recent audit and inspections of the council.

We have issued separate reports during the year. These reports are listed at Appendix 1 for information.

Appendix 2 sets out the scope of audit and inspection.

Appendix 3 provides information about the fees charged.

Key messages

Council performance

The council was assessed as a good Authority in the Comprehensive Performance Assessment (CPA) in 2003. It is addressing the weaknesses identified in CPA and is making good progress to deliver its corporate ambitions, which are now set out in a corporate plan. It has produced a number of strategies for improved performance. There have been improvements in service performance across the council's priorities. However the council is not yet able to measure its progress effectively against some of its objectives.

Housing – large scale voluntary transfer

The council has made significant progress towards the large scale voluntary transfer of housing stock and chose a preferred landlord in May 2004. Ongoing consultation with tenants in advance of their vote was suspended in the run up to the referendum on an elected regional assembly and local government reorganisation but has now been restarted.

Financial position

The council already has relatively high levels of useable reserves and significant capital receipts are expected. The council has developed a capital receipts strategy and is in the process of appointing consultants to advice on the development of three housing areas.

Local government reorganisation publicity

We received a number of complaints about publicity issued by Durham councils in advance of the referendum on the proposals for local government reorganisation in Durham. The district auditor's overall view, after reviewing the publicity, was that some of the expenditure incurred may have been unlawful as it may have contravened the Publicity Code.

Following discussions the council put more robust arrangements in place to ensure that it did not contravene the Code.

Action needed by the council

The council should:

- complete the development of measures based on outcomes for users and/or the community that will assist in monitoring and assessing progress on corporate ambitions and community outcomes;
- continue work to make communities safer by completing the community safety strategy and mainstreaming section 17 issues;
- continue efforts to lower the level of staff sickness and improve the capacity of the council to deliver improved services;
- address areas of low and mixed performance, such as processing planning applications;
- continue the process of consulting with tenants prior to the vote on large scale voluntary stock transfer;
- continue to develop the capital receipts strategy to ensure capital expenditure is clearly linked to corporate priorities.

Council performance

Comprehensive Performance Assessment (CPA)

On behalf of the government we undertook a classification of all local Authorities in England in 2002/04. Sedgefield was assessed as a 'good' council (out of five possible ratings: excellent, good, fair, weak and poor).

The key strengths of the council were effective community leadership through partnership, provision of quality services and improvements for the local community, and firm foundations for future improvement.

Key weaknesses were the absence of a corporate plan to focus the council's efforts, underdeveloped communications, inconsistent performance management, uneven service performance and incomplete plans for the future.

CPA and improvement

The council is addressing the weaknesses identified in CPA and is making good progress to deliver its corporate ambitions, which are now set out in a corporate plan. It has produced a number of strategies for improved performance. There have been improvements in service performance across the council's priorities. However the council is not yet able to measure its progress effectively against some of its objectives.

Whilst we have not completed a formal assessment of progress this year, in this section of the Letter we comment on the progress the council has made so far.

Overall the council is making good progress. It is clear that the council is putting much effort into delivering improvements and steady progress is being made across most areas. A number of strategies have been developed to deliver improved performance. Developing sound and effective business and service plans will be the key to successfully implementing them.

The council is making good progress in implementing the actions which are set out in the new corporate plan to deliver its corporate ambitions and to address the weaknesses identified by CPA. However, measurement of the extent of progress and assessing the effectiveness of these actions is partially hampered by the lack of key and relevant measures that will demonstrate the success in achieving some of the community outcomes. There are links to detailed targets in some areas but the focus of performance measures is not always directly relevant to the desired outcome.

Against the four corporate ambitions there is evidence of positive progress in all, though some community outcomes, such as 'making communities safe', have some mixed results. Performance indicators in the main are rising although there are a number such as the number of days lost due to sickness which are deteriorating. Actions are being taken or are planned to address all the weakness identified in the CPA although it is difficult at this stage to make any definitive assessment of the impact they are having.

Other Audit Commission inspections

Services for young people

We carried out an inspection of the council's services for children and young people in 2004. We judged the services to be fair with promising prospects for improvement. Key strengths included the council's understanding of the area and the needs of young people, its prioritisation of services for young people, its strong partnership working for the services and active involvement in the LSP young people's partnership, knowledgeable staff, and a good range of activities and projects for children and young people. However work to develop a single strategy and performance measures for these services was at a very early stage and there was no systematic approach to consulting young people.

The inspection recommended that the council consults young people on the development of an action plan for services to children and young people, and that the council should set out clearly what young people can expect from the council; the inspection also recommended that the action plan sets challenging targets for improvement.

E-government

All dealings with the public should be capable of being conducted electronically by December 2005. Sedgefield is part of the Durham e-government partnership, which consists of both county and district councils. We undertook a staged inspection of this partnership in spring 2004.

This inspection found that the building of a working partnership had been largely achieved, but the partnership now needs to focus on realising the benefits of e-government for the people of county Durham. It should develop an improvement plan with clear milestones, responsibilities, resources and improvement targets. This plan can then be monitored to ensure delivery within planned timescales.

When the improvement plan is available, we will complete our inspection work in this area.

Performance management

Overall performance management arrangements have improved with the development of the corporate plan and medium-term financial plan and review of strategic working groups.

The council has improved performance management arrangements in the year by reviewing the existing strategic working groups, developing the corporate plan to focus on priorities and developing a medium-term financial plan to clearly link financial resources to corporate priorities.

Service planning is a key building block within any performance management system. The council acknowledges the need to strengthen its service planning arrangements to ensure clear links with the corporate plan. In order to help ensure quality and consistency there is a need for revised corporate guidance to inform the development of effective service plans.

The guidance should set out the need for service plans to:

- contain clear links to the delivery of corporate priorities set out within the recently revised corporate plan;
- set out clear priorities and non-priorities for each service area;
- contain measurable targets linked to service and corporate priorities;
- be informed by consultation with users and local residents;
- incorporate the council's approach to procurement; and
- incorporate the council's developing approach to risk management.

The development of service planning within the council will provide the opportunity to strengthen the link between service and financial planning.

People management

The council has recently completed a restructure which is intended to strengthen the human resources function. Work is continuing to develop a longer-term approach to human resources by developing workforce planning with clear links to the objectives in the new corporate plan.

The council completed a restructure in September 2004 which aims to create a more strategic human resources section within the overall resources directorate.

Progress on introducing a longer term approach to human resources has been delayed whilst the overall corporate plan and medium-term financial plan have been developed. The council should now develop its approach to workforce planning to reflect new and emerging corporate and service issues. Recent development of job descriptions should be supported by an assessment of competencies to inform the council's approach to workforce planning.

It is important that staffs are clear about their individual contribution to the delivery of corporate priorities. The council's existing employee development programme includes individual targets but these need to be more clearly linked to the delivery of service and corporate priorities.

As part of the development of the performance management framework, and in order to utilise staff capacity more effectively, the council should set staff individual targets linked to service and corporate priorities.

Community planning

The Local Strategic Partnership (LSP) has a number of key measures in place to assist with effective partnership working. Recently introduced performance management arrangements should be strengthened to provide an increased focus on outcomes.

The community strategy was developed in 2003 and the LSP has recently adopted a performance management framework. To strengthen the focus on outcomes the council should encourage the LSP to:

- develop a detailed action plan to support the community strategy and assist in monitoring and implementation;
- provide training for partners on using the new performance management framework;
- develop formal work programmes for the LSP policy groups to ensure focus on the priorities set out in the community strategy; and
- conduct a review of effectiveness of the partnership to identify areas with scope for improvement.

Housing

The council has made significant progress towards large scale voluntary transfer, appointing a preferred landlord in May 2004. Ongoing consultation with tenants had been suspended to avoid confusion with the referendum but has now been restarted.

The council appointed Sunderland housing group as the preferred landlord for the large scale voluntary transfer of council houses in May 2004. A dedicated project team has been established in separate offices to oversee the actual transfer process. The team is made up of officers from Sunderland housing group and the council.

Ongoing consultation with tenants was temporarily suspended to avoid confusion between the tenants vote and the recent referendum on an elected regional assembly and local government reorganisation. The council has now restarted the process of consulting with tenants to ensure their views are taken into account prior to the vote on large scale voluntary transfer.

Performance information

The council has systems in place to collect performance information. Performance against targets is monitored by the strategic working groups. We found instances where performance indicators had not been calculated in-line with definitions.

We reviewed the best value performance indicators as part of our best value performance plan work.

The council has systems in place to collect performance indicators and collate them centrally for audit. Performance information is regularly reported to Members through the strategic working groups and performance against targets is monitored.

We found a number of performance indicators that had been incorrectly calculated or were not in line with the set definitions. Changes identified were minor and performance information was corrected prior to publication of the best value performance plan.

The council should ensure that officers refer to the relevant guidance when preparing performance information to ensure that calculations are both correct and derived from quality systems.

Accounts and governance

We gave your accounts an unqualified audit opinion on 25 November 2004. The accounts were again produced early to a high standard.

Your overall corporate governance arrangements are satisfactory in most key areas however we raised concerns with you about the council's spending on publicity relating to local government reorganisation in Durham.

Audit of 2003/04 accounts

We gave an unqualified opinion on the council's accounts on 25 November 2004.

Matters arising from the final accounts audit

The published accounts are an essential means by which the council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. Members approved the council's annual accounts on 28 July 2004.

Timeliness in producing the accounts will become increasingly important over the next few years as the deadline for completion of the accounts is brought forward in line with the government's requirement. Whilst the accounts have been prepared to meet the requirements this year and would meet next year's deadline if the same timetable is achieved, the deadlines become increasingly more difficult to achieve and will require early planning and scheduling of key meetings in the future.

Report to those with responsibility for governance in the council

We are required to report to those charged with governance (in this case Overview and Scrutiny Committee 1) any issues of concern before we give an opinion on the financial statements.

We are pleased to say that there were no significant issues that we needed to discuss with Members this year before issuing our opinion and this was confirmed in a Letter sent to the chair of Overview and Scrutiny 1 on 19 October 2004. The financial statements were again produced early to a high standard.

Financial standing

The council's financial position is healthy. Links are currently being developed between the new corporate plan and the medium-term financial plan. Significant capital receipts are expected and a clear investment strategy is being developed with Members to ensure spending is in line with council priorities.

General fund spending and balances

The general fund balance stood at £2.3 million at 31 March 2004 which represents 14 per cent of net operating expenditure. In addition the council hold £7.2 million of usable reserves (£4.2 million earmarked reserves and £3 million useable capital receipts) which represents 44 per cent of net operating expenditure. This compares favourably with other districts nationally.

For 2004/05, based on figures to the end of September 2004, there is a projected under-spend for the general fund of £348,000 mainly due to savings from debt rescheduling and increased investment income. Savings have been set aside to assist the council in funding the expected costs of job evaluation.

Housing Revenue Account (HRA)

The housing revenue account (HRA) balance stood at £3 million at 31 March 2004, which represents 9 per cent of HRA expenditure. This is comparable to other districts nationally.

For 2004/05 to the end of September there is no projected call on balances in-line with the approved budget.

Capital receipts

The council held usable capital receipts of £3 million at 31 March 2004 and is expecting significant additional receipts from housing land sales in coming months.

A capital receipts strategy has been developed to ensure that capital expenditure is in-line with council priorities.

Medium-term financial planning

The council has developed an overall corporate plan and medium-term financial plan which were reported to Cabinet and adopted by full council in November 2004.

This links financial resources and corporate objectives and now needs to be developed through budget setting and business planning processes.

Systems of internal financial control

We have not identified any significant weaknesses in the overall control framework however the introduction of the new financial management system on 1 April 2004 has caused delays in reconciling the bank account in the current year.

The council is not fully aware at a corporate level of all the partnerships that it has entered into either formally or informally and has agreed to identify the extent of joint working.

Internal Audit

Our assessment is that Internal Audit provides an effective service overall and met CIPFA standards. However the new CIPFA Code of Practice for Internal Audit, in place for 2004/05, expands the role of Internal Audit, placing particular focus on reporting to Members and providing an opinion on the council's internal control framework.

The new Code is an important development for Internal Audit and arrangements will need to be reviewed to ensure compliance with all of the standards. The new Code will form the basis for our review of Internal Audit in the 2004/05 audit.

Current year bank reconciliation

The introduction of a new financial management system on 1 April 2004 has caused delays in reconciling the bank account in the current year.

The council has responded by designating an officer full time to resolving the problems and full reconciliation of four bank accounts has been achieved to the end of September 2004.

The general drawing account has been reconciled to the end of May 2004 and work is ongoing to ensure all accounts are reconciled to the end of November by Christmas. The council has maintained daily checks on all cash receipts and cheques to ensure that no unlawful or fraudulent transactions have occurred and to allow ongoing production of accurate budgetary control information.

Partnership control arrangements

The council is not fully aware at a corporate level of all the partnerships that it has entered into either formally or informally. Consequently no comprehensive record exists of all partnerships entered into by the council.

The council has agreed to identify the extent of its joint working with other bodies. Members should ensure that any future commitments arising out of these arrangements are quantified and that appropriate controls are in place to monitor service delivery and the use of resources.

Standards of financial conduct and the prevention and detection of fraud and corruption

We have not identified any significant weaknesses in your arrangements for monitoring standards of conduct or the prevention and detection of fraud and corruption.

Our review of the council's arrangements showed no major changes from the arrangements in place for 2002/03.

National Fraud Initiative (NFI)

The council took part in the Audit Commission's national fraud initiative (NFI) 2002/03. The NFI, which is undertaken every two years, brings together data from local Authorities, NHS Bodies, government departments and other agencies, to detect a wide range of frauds against the public sector. Total savings from the 2002/03 exercise exceeded £83 million, of which over £15,100 savings were identified at this Authority.

The Commission is repeating the exercise this year and will again collect payroll, pensions, housing benefits, student loan and housing rents data from Authorities.

Alongside the core exercise a number of pilot initiatives are being undertaken at selected sites. These are focused on risk areas that were highlighted by Authorities and include payments made to privately run care homes, abuse of blue badge parking permits, serial insurance claimants and duplicate payments to suppliers. These pilot areas, if they prove effective, will be incorporated into future NFI exercises.

Legality of transactions

We have not identified any significant weaknesses in the council's framework for ensuring the legality of its significant financial transactions however we were concerned about expenditure on publicity in advance of the referendum on local government reorganisation in Durham.

We have not identified any significant weaknesses in the council's framework for ensuring the legality of its significant financial transactions. All reports are discussed at management team and formally signed off by the statutory officers prior to submission to Members.

Local government reorganisation publicity

We received a number of complaints about publicity issued by Durham councils (including Sedgefield) in connection with the options for local government in Durham. The complaints alleged that there had been unlawful spending on publicity which did not comply with the guidance set out in the Code of Recommended Practice on local Authority publicity.

After reviewing the publicity issued by the Durham councils the District auditor's view was that some of the expenditure incurred may have been unlawful.

However, the district auditor decided not to take formal audit action because:

- the amount of expenditure involved was relatively minor and he did not wish to add expenditure to the public purse by taking formal audit action;
- the supporters of both options for the future configuration of councils in Durham may have acted, in some respects, outside the publicity Code so some balance was achieved overall;
- the restricted period (for publicity) was about to start and he did not wish to reopen the debate during that period.

Following discussions the council put more robust arrangements in place to ensure that it did not contravene the Code.

Other work

Grant claims

Over recent years the number of claims requiring audit certification has grown and audit fees have risen in line with this growth. In accordance with strategic regulation, the Audit Commission has adopted a more risk-based approach to the certification of grant claims. With effect from 2003/04 the smaller claims have not been subject to audit or have received a lighter touch. The approach to larger claims has been determined by risk and the adequacy of the council's control environment.

The council has arrangements in place for managing and quality assuring grant claims submitted for audit, however reliance on the control environment has been limited in the first year of the new grant arrangements as we sought to establish the controls in place for each specific grant.

Grant fees charged to the end of October totalled £22,300 and a further £8,000 is expected by the end of December 2004.

Looking forward

Future audit and inspection work

We have an agreed plan for 2004/05 and we have reported in this Letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2004/05 accounts, will be reported in next year's Annual Letter.

We will seek to ensure, wherever possible, that our work relates to the improvement priorities of the council when planning our programme of work for 2005/06. We will seek to reconsider, with you, your improvement priorities in the light of the CPA assessment and your own analysis, and develop an agreed programme by 31 March 2005.

Revision to the Code of audit practice

The Audit Commission has consulted on a revised Code of audit practice for application to the audit of the 2005/06 accounts. The new Code, which will be laid before parliament in January 2005, is designed to secure:

- a more streamlined audit, which is proportionate to risk and targeted on areas where auditors have most to contribute to improvement;
- a stronger emphasis on value for money, focussing on corporate performance and financial management arrangements (rather than individual services and functions); and
- better and clearer reporting of the results of audits.

Further details will be provided in the audit and inspection plan 2005/06.

Closing remarks

This Letter has been discussed and agreed with the chief executive and director of resources. A copy of the Letter will be presented at the cabinet on 20 January 2005.

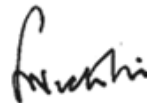
The council has taken a positive and constructive approach to our audit and inspection we would like to take this opportunity to express our appreciation for the council's assistance and co-operation.

Availability of this Letter

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



Sarah Diggle
Relationship Manager



Steve Nicklin
District Auditor
December 2004

Status of our Letter to the council

Our Annual Audit and Inspection Letter is prepared in the context of the statement of responsibilities of auditors and audited bodies issued by the Audit Commission. Annual Audit and Inspection Letters are prepared by relationship managers and appointed auditors and addressed to Members and officers. They are prepared for the sole use of the audited and inspected body, and no responsibility is taken by the Audit Commission or its appointed auditors to any Member or officer in their individual capacity, or to any third party.

Reports issued during 2003/04

Report	Date issued
Audit Plan	July 2003 *
E-government Stage 2 Inspection Interim Report	April 2004
Internal Audit Letter	May 2004
Core Process Review Letter	June 2004
Partnership Control Arrangements	June 2004
Financial Aspects of Corporate Governance	September 2004
Best Value Letter (2004/05 Audit)	September 2004
SAS 610 Letter	October 2004
Final Accounts Memo	November 2004
Audit Opinion and Certificate	November 2004
Inspection of Services to Children and Young People	November 2004

* Covers two years 2002/03 and 2003/04.

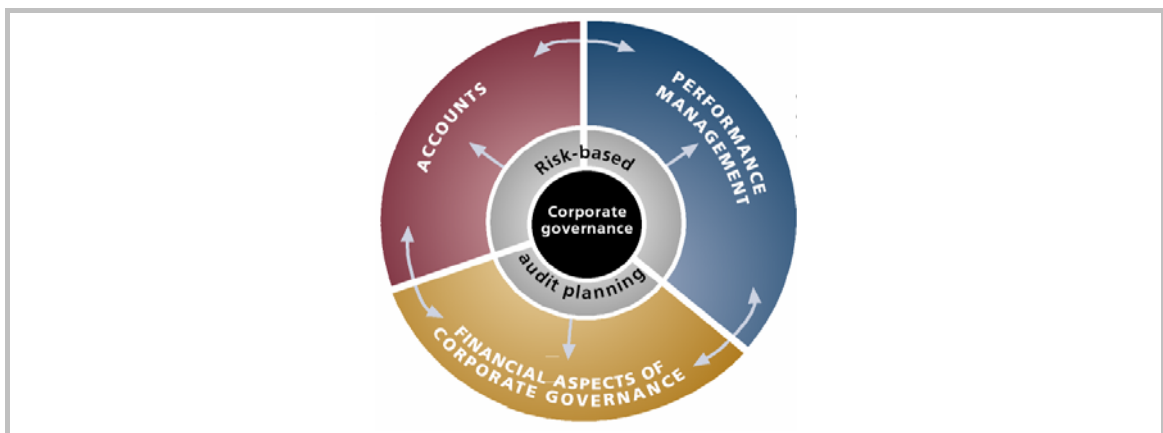
Scope of audit and inspection

Audit

Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of audit practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.

Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Exhibit 1.

EXHIBIT 1 THE THREE MAIN ELEMENTS OF OUR AUDIT OBJECTIVES



Accounts

- Opinion.

Financial aspects of corporate governance

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

Performance management

- Use of resources.
- Performance information.
- Best value performance plan.

Inspection

Inspection work is based around section 10 of the Local Government Act 1999, which requires us to carry out inspections and deliver reports that will:

- enable the council and the public to judge whether best value is being delivered;
- enable the council to assess how well it is doing;
- enable the Government to assess how well its policies are being implemented; and
- identify failing services where remedial action may be necessary.

The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.

Audit and inspection fee

Audit fee update

Audit area	Plan 2003/04 £	Actual 2003/04 £
Accounts	20,000	20,000
Financial aspects of corporate governance	35,000	35,000
Performance	30,000	30,000
TOTAL CODE OF AUDIT PRACTICE FEE	85,000	85,000
Grant claim certification	32,000	30,300
Additional voluntary work (under section 35)	0	0

Inspection fee update

The full year inspection fee is £17,856. The work reported in this Audit and Inspection Letter has been funded by an element of the fee covering 2003/04 and by an element of the fee covering 2004/05. In both years the actual fee will be in-line with that planned.