
AUDIT SERVICES' ANNUAL REPORT 2008/09

Purpose of Report

1. To provide the Committee with Audit Services' Annual Report for 2008/09 in accordance with its role and terms of reference.

Information and Analysis

2. The Annual Audit Plan for 2008/09 was approved by this Committee in March 2008 (Minute No. A40/Mar/08) and Audit Services' Annual Report against this plan is attached at **Appendix A**.
3. The Annual Report should be considered in the context of fulfilling the function to monitor the adequacy and effectiveness of the Council's internal control environment and the Internal Audit service provided.
4. The report details the internal audit service provided; operational performance achieved; audit assignment, consultancy/corporate arrangements work and contingency activity undertaken; outcomes against key performance indicator targets; and looks forward to the next financial year.
5. The outcomes from the audit assignments undertaken, together with the positive responses from management to accept and implement required improvements to control systems, complemented by consultancy work carried out to advise and assist management to establish appropriate controls at source, demonstrate that the Council continues to operate within a control environment that is generally sound.
6. The position upon Audit Services' Key Performance Indicators is positive. The Council's Internal Control environment overall was scored at the maximum 4/4 as evaluated through the CPA Use of Resources 'harder test' methodology. This equates to a definition of 'performing strongly – well above minimum requirements'. All other targets covering service standard, customer satisfaction and service quality and staffing were met.
7. The positive position upon the Council's internal control environment will be reflected in the Council's Annual Governance Statement which will be published alongside the Statement of Accounts for 2008/09.

Recommendations

8. It is recommended that Audit Services' Annual Report for 2008/09 be noted.

Reasons

9. The recommendation is supported to provide the Audit Committee with evidence to reflect on the Council's governance arrangements.

Brian James
Head of Corporate Assurance

Background Papers

- (i) Audit Services' Role and Terms of Reference
- (ii) Audit Assignment Executive Summaries
- (iii) Audit Advice and Consultancy Sheets
- (iv) CPA Use of Resources - Assessment Results
- (v) CIPFA Audit Benchmarking Statistics for Unitary Authorities

Brian James : Extension 2140
EAC

S17 Crime and Disorder	Other than the special investigation work there is no crime and disorder impact.
Health and Well Being	There is no specific health and well being impact.
Sustainability	There is no specific sustainability impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	There is no specific relevance to the strategy beyond a reflection on the Council's governance arrangements.
Efficiency	There is no specific efficiency impact.

**AUDIT SERVICES
ANNUAL REPORT
2008/09**

Contents List

1. Introduction
2. Service Provided
3. Operational Performance
4. Review of Audit Assignment Work
5. Review of Outputs from Consultancy and Corporate Arrangements Work/Contingency Activity
6. Annual Governance Statement
7. Performance Indicators
8. The Future

Appendices

Appendix 1 – System of Internal Audit

Appendix 2 - Summary of Audit Assignments Undertaken During 2008/09

Appendix 3 - Summary of the More Significant Outputs from Consultancy and Corporate Arrangements Work/Contingency Activity Undertaken During 2008/09

Appendix 4 - Audit Services - Key Performance Indicators

1. Introduction

- 1.1 Audit Services comprises an establishment of 5.3 full time equivalent staff and operates in accordance with professional standards.
- 1.2 The aim of the Section is to provide an independent and objective service that wherever possible adds value to the business of clients by being responsive to their needs, constructive in approach, appraisal and recommendations, whilst satisfying statutory responsibilities.
- 1.3 The position on performance targets and objectives set for the year upon service standards, staffing and customer/service quality was positive and this solid base of internal audit service delivery is a major benefit to the Council with the increased importance of the corporate governance agenda, not least in terms of the Comprehensive Performance Assessment (CPA).
- 1.4 The remainder of this report chronicles in more detail operational performance during the year.

2. Service Provided

- 2.1 The requirement for an internal audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which requires that authorities “make arrangements for the proper administration of their financial affairs and shall ensure that one of their officers has responsibility for the administration of those affairs”. The Accounts and Audit (Amendment) Regulations 2006 (SI 2006/564), regulation 6, specifically requires that a “relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control”. The Director of Corporate Services has been delegated with this requirement by the Council and the Audit Services Section carry out the internal audit role.
- 2.2 The guidance accompanying the legislation states that proper internal control practice for internal audit are those contained within the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.
- 2.3 Although internal audit has a statutory basis and therefore, has a major corporate inspection and monitoring role, it is operated as a service to management and provides assurance and consultancy upon all aspects of management and administration. Audit Services has limited resources and consequently its workforce is deployed in accordance with an audit strategy having regard to relative risks and levels of assurance required, translated into an agreed annual plan.
- 2.4 Service level agreements are in place across the client base which include details upon audit assignments, consultancy tasks, charges, working protocols, response times and client responsibilities.
- 2.5 CIPFA’s definition of the system of internal audit is wider than Audit Services itself, however. It comprises the broader framework of assurance established to satisfy the Council that the risks to achieving its objectives, and the risks inherent in undertaking its work, have been properly identified and are being managed by controls that are adequately designed and effective in operation. This broader assurance framework is documented at **Appendix 1**.

3. Operational Performance

3.1 A summary of the year in person days is outlined in the following table, which analyses chargeable time, by category, as well as non chargeable and non productive time

Summary of 2008/09 Year In Person Days			
	Annual Plan	Actual Allocation	Variance + -
Chargeable Time			
• Audit Assignments	609	565	44
• Advice and Consultancy	251	232	19
• Corporate Arrangements	90	89	1
• Contingency Allocation	110	165	55
SUB TOTAL	1060	1051	55 64
Non Chargeable Time			
• Training, ISO Administration, Supervision and Management etc.	103	110	7
Non Productive Time			
• Annual Leave, Bank Holidays, Sickness etc.	224	226	2
TOTAL	1387	1387	64 64

3.2 Actual chargeable time in total during the year was some 99% of that planned. However, although chargeable time was broadly in line with that planned there were variations between categories.

3.3 Variations to the audit assignment element of the plan were discussed at the Audit Committee during the year and the range of activity undertaken on consultancy work and contingency tasks were agreed with Directors.

4. Review of Audit Assignment Work

- 4.1 Planned audit assignments for the year totalled 56 of which 52 were completed i.e. 92%. These audits spanned all Departments of the Council and details of the assignments undertaken, together with the audit opinion and relevant commentary where the opinion was less than substantial assurance, is shown at **Appendix 2**.
- 4.2 Audit work was undertaken on the core financial systems of corporate income, creditors, payroll, council tax/NDR, housing rents and housing benefits. All resulted in substantial assurance opinions with the exception of the residual elements of the payroll service not transferred to Xentrall where an opinion of limited assurance was given. This was due to authorised signatory lists being out of date and the six-monthly establishment checks to verify the accuracy of the payroll had lapsed. Management responded positively to the audit findings and implemented the required improvements.
- 4.3 Other instances of less than substantial assurance were more service based and in all cases, management have responded positively to the audit reviews. In respect of:
- the Civic Theatre Front of House - improvements have been made to stock/income reconciliations and the general quality of financial record keeping;
 - Licensing - a review has been undertaken of IT system security, follow up of enforcement visits have been actioned and improvements are to be made in respect of procedural documentation.
 - the Pupil Referral Unit - improvements are to be made in respect of governance arrangements, record keeping, income and asset management.
 - a Primary School - improvements are to be made to controls around asset management, purchasing, income and banking and private school funds
 - the E Learning Curriculum Service - management are to review roles and responsibilities defined in the joint service planning agreement, review reporting structures, establish a learning technologies group following consultation with schools, and issue a joint ICT report to primary schools as well as reviewing their procurement arrangements to ensure full evidenced compliance with Contract Procedure Rules.
 - Contract Audit - management are to ensure compliance with Contract Procedure Rules in respect of using written, signed contracts where relevant and in the use of the 'approved list'.
 - the Corporate Premises Risk and Facilities Management Database - a subsequent CMT report recommended the implementation of the Audit Improvement Action Plan through a task and finish group and furthermore, parallel work is progressing to establish a Corporate Landlord model across the Council which will lead to a more robust and sustainable framework for managing property risk. The group is systematically working through the audit recommendations and although taking longer than anticipated, a risk ranking exercise has been undertaken to ensure a prioritised approach is adopted. This has focused on particular buildings and categorised risks within those buildings. The slippage to the timetable of the project is a result of access issues faced by ICT when attempting to provide the group with user access to the database. Despite this delay, key progress to date has included:
 1. Rationalisation of database categories to remove non essential low risk categories to achieve a more accurate and realistic reporting regime.

2. Risk profiling properties according their type, usage, levels of property risk, etc to allow a more focused and targeted approach to completion of the database.
 3. Target groupings of premises to allow a more focused and targeted approach by management e.g. Leisure, Housing, Children's, Adults, etc. and liaison with principal managers to achieve "buy in" to the solution.
 4. Development and implementation of a formalised exception reporting methodology to management.
- 4.4 It is pleasing to report that, following joint work carried out with Children's Services staff to support primary schools to gain accreditation under the new Department for Children, Schools and Families (DCSF) Financial Management Standard, all fourteen primary schools reviewed were considered to have attained the Standard.
- 4.5 As regards audit assignments in general, in line with good practice, at an appropriate time Audit Services follow up with Managers progress upon the implementation of recommendations agreed in audit reports. As part of this follow up process, any significant recommendations remaining outstanding are reported quarterly to the Audit Committee. It is pleasing to report no matters of concern on this point.
- 4.6 The overall outcomes from the audit assignments undertaken, together with the positive responses from management to accept and implement required improvements to internal control systems, demonstrate that the Council continues to operate within a control environment that is generally sound.

5. Review of Outputs from Consultancy and Corporate Arrangements Work/Contingency Activity

- 5.1 The Section worked upon a number of corporate arrangements and consultancy projects identified in the original Audit Plan but with recognised flexibility some were replaced by others at the request of Directors or given up to contingency activity with their agreement. A summary of the more significant outputs from this work is given at **Appendix 3**.
- 5.2 The work undertaken was wide-ranging and included governance matters, systems development work, service delivery enhancements and carrying out investigations into irregularities.
- 5.3 Developments to improve governance arrangements included the phased introduction of assurance statements to primary schools to support the 2009 Annual Governance Statement, and the acceptance, by the Audit Committee in March 2009, of recommended improvements to the Council's anti-fraud and corruption arrangements.
- 5.4 Systems development work included implementation of the web-based bankline system, assistance with the migration of the BACS transmission functions from Xentrall ICT to service users to provide a more efficient service and participation at initial scoping meetings held on the introduction of the Artifax Events Management System.
- 5.5 Service delivery enhancements included developments to implement the Plastic Card Industry Data Security Standard to provide assurance that processing and data storage systems holding personal credit and debit card information are robust and secure from external threats. Work remains ongoing in this respect with a projected compliance date during 2009/10.
- 5.6 There were a number of investigations carried out during the year into irregularities and appropriate action was taken by management on findings.
- 5.7 In addition to the outputs stated in **Appendix 3**, the Section has responded to numerous requests from Departments, including schools, for advice and assistance upon all aspects of the Council's internal control framework.
- 5.8 Generally, the aim of the consultancy work is to complement the audit review process by advising and assisting management to implement, at source, appropriate internal controls within systems. This approach is seen as an effective way to help underpin the sound nature of the Council's control environment.

6. Annual Governance Statement

- 6.1 In accordance with statutory requirements the Council must publish an Annual Governance Statement alongside the Statement of Accounts for 2008/09.
- 6.2 Audit Services' contribution to this statement will be positive since, as a result of the range of audit work undertaken, it is concluded that overall the Council continues to operate within a control environment that is generally sound.
- 6.3 This conclusion is consistent with the outcomes from the broader assurance framework documented at **Appendix 1**.

7. Performance Indicators

- 7.1 A summary of outcomes against targets and objectives for the year covering service standard, customer satisfaction and service quality and staffing is included at **Appendix 4**. The position shown is positive.
- 7.2 The Council's Internal Control environment overall was scored the maximum 4/4 as evaluated through the CPA Use of Resources 'harder test' methodology. This equates to a definition of 'performing strongly – well above minimum requirements'. The overall score is an improvement from the 3/4 received in 2007 and is impressive given that year on year the scoring requirements become more stringent.
- 7.3 Audit Services maintained accreditation under the ISO 9001:2000 Quality Standard for all aspects of business following external scrutiny by the accreditation body. The system itself reflects Audit Services' proactive approach to involving clients in the audit process with the belief that by working in partnership the more both parties will benefit. Indeed, the results from client satisfaction surveys undertaken following each audit assignment remain impressive and demonstrate the high regard clients have for the service provided.
- 7.4 Productive days per auditor were top quartile as measured by the CIPFA Benchmarking Statistics for Unitary Authorities and costs per audit day were within the second lowest quartile. All other operational targets were achieved.
- 7.5 In addition, as identified in the 2007/08 Annual Report as an aim for the Service for 2008/09, an audit assurance framework has been established in conjunction with audit colleagues for the services carried out by Xentrall, the Darlington and Stockton Partnership.

8. The Future

- 8.1 The aim of Audit Services for the year ahead is to deliver against set service targets and objectives which incorporate the much more onerous key lines of enquiry requirements of the revised CAA methodology.

System of Internal Audit

The Framework of Assurance established to satisfy the Council that the risks to achieving its objectives, and the risks inherent in undertaking its work, have been properly identified and are being managed by controls that are adequately designed and effective in operation

Risk	Assurance Provider	Sources of Assurance	Links to Internal Audit Work Plan	Reporting to Members
Internal Control environment inadequate/ineffective.	Internal Audit	Internal Audit Strategy. Internal Audit's Role and Terms of Reference. Risk based Annual Internal Audit Plan. Internal Audit Reports/opinions and outcomes from consultancy work undertaken.	Internal Audit Strategy. Internal Audit's Role and Terms of Reference. Risk based Annual Internal Audit Plan. Internal Audit reports/opinions and outcomes from consultancy work undertaken.	Internal Audit's Strategy, Role and Terms of reference and Annual Audit Plan approved by the Audit Committee. Quarterly/Annual Reports to the Audit Committee on progress/outcomes against the Annual Audit Plan. Annual Report includes an overall opinion on the Council's control environment.
The financial position of the Council not presented fairly in the Financial Statements; the Annual Governance Statement not presented in accordance with relevant requirements; and proper arrangements are not in place to secure economy, efficiency and effectiveness in the use of resources.	External Audit	Risk based External Audit Plan. External Audit Reports/opinions.	Internal Audit's Annual Audit Plan discussed with External Audit to facilitate External audit planning and minimise the duplication of audit effort wherever possible.	External Audit Plan and External Audit Reports, including the Annual Audit and Inspection Letter, considered by the Audit Committee. Annual Audit and Inspection Letter considered by Cabinet.

Risk	Assurance Provider	Sources of Assurance	Links to Internal Audit Work Plan	Reporting to Members
Overall performance of the Council considered inadequate/ineffective.	Audit Commission	Audit and Inspection Plan. Audit Commission Reports/opinions.	Audit Commission Reports reflected upon in the Internal Audit planning process.	Audit and Inspection Plan considered by the Audit Committee. Audit Commission Reports, including the Annual Audit and Inspection Letter, considered by Cabinet.
Service delivery arrangements considered inadequate/ineffective.	Other External Inspection Agencies eg Care Quality Commission (CQC) and the Office for Standards in Education, Children's Services and Skills (Ofsted).	External Inspection Agency Reports.	External Inspection Agency Reports reflected upon in the Internal Audit planning process.	External Inspection Agency Reports considered by Cabinet.
Business risk processes inadequate/ineffective	Risk Management and Insurance Section	Risk Management Strategy Corporate/Departmental Risk Registers. Corporate Risk Management Group and Sub-Group Agendas and Minutes. Officer/Member Training.	Annual Audit Plan developed with reference to Corporate/Departmental Risk Registers. Risk Management function subject to periodic Internal Audit review as part of the cyclical audit process.	Risk Management Strategy endorsed by the Audit Committee and approved by Cabinet. Six-monthly/Annual Reports to the Audit Committee on the outcomes from the Council's risk management processes.
Fraud and corruption arrangements inadequate/ineffective.	Internal Audit and Benefits Enquiry Unit.	Anti-Fraud and Corruption Strategy, Policy, Fraud Response Plan and Money Laundering Policy. Housing Benefit/Council Tax Anti-Fraud Strategy, Policy and Sanctions Policy. Confidential Reporting Policy. Internal Audit reviews of arrangements. Outcomes from bi-annual National Fraud Initiative exercises co-ordinated by the Audit Commission. Internal Audit/Benefits Enquiry Unit case files.	Anti-Fraud and Corruption arrangements, including National Fraud Initiative exercises, administered by Internal Audit. The potential for a service to be susceptible to fraud reflected within Internal Audit's risk assessment model that underpins the annual audit planning process. Internal Audit review of Housing Benefits conducted on an annual basis.	Fraud related Policies and Strategies approved by the Audit Committee and Confidential Reporting policy approved by Council. Annual Reports to the Audit Committee on the outcomes from the Council's anti-fraud and corruption arrangements.

Risk	Assurance Provider	Sources of Assurance	Links to Internal Audit Work Plan	Reporting to Members
Information governance arrangements inadequate/ineffective.	Information Governance Section and External Audit.	Corporate Information Governance Policy and supporting policy/guidance framework. Corporate Information Governance Group Agendas and Minutes. Officer/Member Training. External Audit Report on Data Quality.	Information Governance/Sensitivity of data is reflected within Internal Audit's risk assessment that underpins the annual audit planning process. Information Governance subject to periodic Internal Audit review as part of the cyclical audit process.	Corporate Information Governance Policy approved by Cabinet. Six-monthly reports to the Audit Committee on progress with implementation of the Policy. External Audit Report on Data Quality considered by the Audit Committee.
Internal control environment of relevant areas of Xentrall inadequate/ineffective.	Stockton BC Internal Audit	Risk based Annual Internal Audit Plan. Internal Audit reports/opinions and outcomes from consultancy work undertaken.	Joint working protocol agreed between the Internal Audit Services of Stockton and Darlington to cover Xentrall audits. Copies of all relevant Stockton BC Internal Audit Reports on Xentrall forwarded to Darlington Internal Audit for information.	Stockton BC's Annual Audit Plan related to Xentrall considered by the Audit Committee. Quarterly Reports to the Audit Committee on progress/outcomes against the Annual Audit Plan.
Local Code of Corporate Governance not implemented.	Corporate Group responsible for drafting the Annual Governance Statement.	Local Code of Corporate Governance Local Code individual key documents/functions matrices, completed by relevant Lead Officers, posted on the intranet covering awareness, monitoring and review. Six Monthly update reports to the Audit Committee in respect of the application of Corporate Governance within the Authority.	Internal Audit direct effort annually to validate evidence quoted in the individual key documents/functions matrices posted on the intranet.	Local Code endorsed by the Audit Committee and approved by Council. Six-monthly reports to the Audit Committee on progress with implementation of the Code.
Grant processes inadequate.	External Audit	External Audit Report on audited Grant Claims and Returns.	Grant process arrangements subject to annual review by Internal audit.	External Audit Report on Grant Claims and Returns considered by the Audit Committee.

Risk	Assurance Provider	Sources of Assurance	Links to Internal Audit Work Plan	Reporting to Members
Health and Safety practices and processes inadequate/ineffective	Health and Safety Unit	Corporate Health and Safety Policy Risk Assessments Reportable Accident Statistics Outcomes from audits undertaken by the Health and Safety Unit. Officer/Member Training.	Health and Safety function subject to periodic Internal Audit review as part of the cyclical audit process.	Corporate Health and Safety Policy approved by Cabinet Six-monthly report to Resources Scrutiny on the Council's performance on health and safety.
Property management arrangements inadequate	Corporate Premises Risk Group	Corporate Premises Database System and supporting documentation.	Corporate Premises Database System subject to periodic Internal audit review as part of the cyclical audit process.	Property management arrangements included in Council Risk Registers and, as such, included within member reporting arrangements for business risk processes.
Management control in respect of operational aspects of the business inadequate.	Managers/Schools Assurance Statements.	Annual signed Statements from Assistant Directors and schools.	Arrangements administered and outputs scrutinised by Internal Audit.	Annual report to the Audit Committee on the outcomes from the Assurance Statement process.
Partnership governance arrangements inadequate.	Partnership Lead Officers	Annual Partnership Toolkit Questionnaires completed by relevant Council Partnership Lead Officers and supporting documentation.	Partnership Governance Arrangements subject to periodic Internal Audit review as part of the cyclical audit process.	Partnership Toolkit approved by Cabinet. Annual report to Cabinet on the operations of significant partnerships.
Treasury management arrangements inadequate.	Accounting Services	Treasury Management Policy Statement, Strategy, Prudential Indicators and Procedures.	Treasury Management function subject to periodic Internal Audit review as part of the cyclical audit process.	Treasury Management Policy Statement, Strategy and Prudential Indicators approved by Council. Treasury Management Procedures approved by Cabinet. Six-monthly/Annual Reports to Cabinet on the performance of the Treasury Management function.

Risk	Assurance Provider	Sources of Assurance	Links to Internal Audit Work Plan	Reporting to Members
Financial management arrangements inadequate/ineffective.	Accounting Services	Medium Term Financial Plan. Corporate Budget Setting/Monitoring processes and supporting documentation. Officer/Member Training.	Financial management arrangements subject to periodic Internal Audit review as part of the cyclical audit process.	Medium Term Financial Plan approved by Council. Quarterly Reports to Cabinet/Resources Scrutiny on Finance/Performance.
Ethical health arrangements inadequate.	Legal Services	Member Code of Conduct. Officer Code of Conduct. Ombudsmen complaints and outcomes. Member/Officer Training.	Legal Services Reports reflected upon in the audit planning process.	Members and Officers Codes of Conduct endorsed by Standards Committee and approved by Council. Standards Committee meet regularly to consider a range of relevant reports. Regular report to cabinet on Ombudsmen complaints and outcomes.
Ineffective system of internal audit	Senior Group of Officers	Annual Review of the system of internal audit and supporting documentation conducted in accordance with the Accounts and Audit Regulations.	Internal Audit direct effort annually to support the review process.	Annual Review of the system of internal audit considered by the Audit Committee.

AUDIT SERVICES SECTION

SUMMARY OF AUDIT ASSIGNMENTS UNDERTAKEN 2008/09

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
Chief Executives	Creditors	Substantial		
Corporate Services	Corporate Income System	Substantial		
	Creditors	Substantial		
	Payroll (residual elements)	Limited	Issues identified in respect of the schedule of persons permitted to authorise payroll transactions (authorised signatories) being significantly out of date. Six monthly establishment checks to verify the accuracy of the personnel on the payroll not undertaken .	Management have responded positively to the audit findings and an action plan has been agreed to facilitate the improvements required.
	Council Tax /NDR	Substantial		
	Corporate Premises Risk and Facilities Management Database	Limited	Issues identified in the methodology adopted in respect of populating the database, including access to the database, management reporting, scope of the database, capacity, and integration.	Management have responded positively to the audit findings and a project team has been created to facilitate and implement the improvements required
	Treasury Management	Substantial		
	Health and Safety Unit	Substantial		
	Licensing	Limited	Issues identified in respect of IT system security, enforcement visits and improvements required in procedural documentation.	Management have responded positively to the audit findings and an improvement action plan has been agreed.

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
	Bank Reconciliation	N/A	Opinion not given as work non-standard appraisal. Effort concentrated upon facilitating transfer of knowledge, documentation to SBC Internal audit who are now responsible for providing an opinion via their audit work on Xentrall	
Community Services	Arts Centre	Substantial		
	Arts Centre Catering	Substantial		
	Creditors	Substantial		
	Civic Theatre Front of House	Limited	Issues identified in respect of certain stock/income reconciliations not undertaken and around the general quality of financial record keeping.	Management have responded positively to the audit findings and an action plan has been agreed to facilitate the improvements required
	Civic Theatre Box Office	Substantial		
	Contract Audit – Highways and Engineering	Limited (undertaken as one audit assignment)	Certain key requirements of Contract Procedure Rules not adhered to. Management are to ensure compliance with Contract Procedure Rules in respect of using written, signed contracts where relevant and in the use of the ‘approved list’.	Management have responded positively to the audit findings and an action plan has been agreed to facilitate the improvements required
	Contract Audit – Building and Design			
	Learning Disability Day Service	Substantial		
	Independent Sector – Assessment and Payments	Substantial		
	Housing Rents	Substantial		

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
	Housing Benefits	Substantial		
	School Meals	Substantial		
	Supporting People	Substantial		
Children's Services	Primary Schools x14	Substantial Assurance & FMSiS pass x12 Full Assurance and FMSiS pass x 1 Limited Assurance and Conditional FMSiS pass x1	Improvements required in respect of controls around asset management, purchasing, income and banking and private school funds.	Management have responded positively to the audit findings and the school is to be revisited in 2009/10 to confirm implementation of the recommendations.
	Pupil Referral Unit	Limited	Fundamental improvements required in the majority of the areas examined. Governance arrangements need to be clarified. No documented procedural framework with inconsistent record keeping and a particular lack of control over income and asset management.	Management have responded positively to the audit findings and an action plan has been agreed to facilitate the improvements required.
	Libraries	Substantial		
	E Learning - Technical	Substantial		
	E Learning Curriculum	Limited	Fundamental improvements and clarity required in two key areas governance and procurement. Roles and responsibilities need to be defined, reporting structures reviewed and Contract Procedure Rules complied with.	Management have responded positively to the audit findings and an action plan has been agreed to facilitate the improvements required.

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
	Capital Programme/Asset management	Undertaken as part of the contract audit detailed above		
	Contract Monitoring / PFI Scheme	N/A	Opinion not given as work non standard appraisal. Efforts and ongoing work in 2009/10 concentrated upon establishing within existing resources an integrated, effective and efficient contract monitoring regime.	
	Trusts and Funds	N/A	Accounts audited in accordance with Charity Commission guidelines. A satisfactory position was noted.	
	Creditors	Substantial		
	Fostering Services	Substantial		
	Looked after Children	Substantial		
Corporate Core	Local Area Agreement	N/A	Opinion not given as work non-standard appraisal. Expenditure for 2007/08 verified in accordance with grant terms and conditions to enable the Director of Corporate Services to certify the grant statement	
	Grants	Substantial		
	Data Quality/Performance Indicators	N/A	Opinion not given as work non-standard appraisal. Efforts concentrated on assisting with delivery of the Council's Data Quality Strategy implementation plan and following up PwC's 2007 data quality review report in preparation for the 2008 audit that	

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
			proved positive.	
	Mayors Charity Fund	N/A	Annual audit of accounts completed.	
	Corporate Governance	N/A	Opinion not given as work non-standard appraisal. Effort directed to validating evidence quoted in documents/functions on the implementation of the Local Code of Corporate Governance posted on the intranet.	
	TM Barron Charity	N/A	Accounts audited in accordance with Charity Commission requirements. A satisfactory position was found.	

<u>OPINION</u>	<u>DEFINITION</u>
Full Assurance	All controls in place and operating effectively – the system will achieve its objectives.
Substantial Assurance	The majority of controls in place and operating effectively although some control improvements required- the system should achieve its objectives.
Limited Assurance	Certain important controls inadequate or in place but operating ineffectively – there is a risk that the system may not achieve its objectives.
Minimal Assurance	The majority of controls weak , not present or failing – it is likely that the system will not achieve its objectives

**Summary of the More Significant Outputs from Consultancy/Corporate Arrangements
Work/Contingency Activity Undertaken 2008/09**

Department	Description	Output
Corporate Services	Darlington and Stockton Partnership	Work undertaken with colleagues in Stockton Internal Audit and the respective External Auditors, PwC and the District Audit Service, to further develop and help facilitate the approach to both the internal and external audit of the Partnership.
	Information Governance	Participated in a review assisted by PwC of the governance arrangements in place in respect of personal data held by the Council. A pilot review has been completed in Corporate Services and the approach is to be rolled out across the Council in 2009/10
	Cheques and BACS upgraded systems	Assisted in the implementation of a new desk top cheque production system and in the migration of the BACS transmission functions from Xentrall ICT to the service users with a view to providing a more efficient and streamlined service.
	PCI Standard	Work ongoing in respect of the implementation of the Plastic Card Industry Data Security Standard, a mandatory standard for organisations taking credit and debit card payments designed to provide assurance that processing and data storage systems holding personal credit and debit card information are robust and secure from external threats.
	Call/Contact Centre	Assisted in an examination of options for more automated / streamlined payment services within the call/contact centre.
Community Services	Upgrade of Bankline	Implementation of the web based Bankline system completed.
	Artifax Leisure Facilities Management system	Initial scoping meetings held in respect of the introduction of the Artifax Events Management system.
	Care First	Attendance at Project Board meetings on prospective roll-out of system modules.

Department	Description	Output
	Special Investigation	Investigation undertaken following an allegation of management malpractice. The investigation has concluded with no further action to be taken
	Special Investigation	Investigation completed in respect of a significant cash discrepancy. At Crown Court, the defendant pleaded guilty to theft and was sentenced to twelve months imprisonment, suspended for two years
	Special Investigation	Provided assistance with an investigation undertaken in respect of alleged misappropriation of Council stock. The investigation has been concluded with action being taken by management to strengthen appropriate internal control mechanisms.
	Special Investigation	Provided assistance with an investigation being undertaken into an allegation of unauthorised payments being made to an employee. The investigation has been concluded with action being taken by management to strengthen appropriate internal control mechanisms.
	Special Investigation	Provided assistance with an investigation into an alleged misappropriation of income. The investigation has been concluded with action being taken by management to strengthen appropriate internal control mechanisms.
	Special Investigation	Provided assistance with an investigation into a significant cash discrepancy. The investigation remains ongoing and the matter has also been passed to the police.
Children's Services	Procedural Documentation for Schools	Reviewed and commented upon, as appropriate, draft documentation produced for Primary schools by the Schools Finance Team scheduled for distribution in May 2009
	Contact Point	Attendance at Steering Group established to oversee implementation of the national children's database by the October 2009 deadline
	FMSiS Standard	Providing general advice and guidance on implementation of the Standard and contributing to a regional group on the topic
	Special Investigation	Provided assistance with an investigation into the alleged misuse of Council funds and assets. The investigation has been concluded with action being taken by management to strengthen appropriate internal control mechanisms

Department	Description	Output
Chief Executives	European Grant Funding	Certification of initial grant claim in accordance with the appropriate funding requirements
Corporate Core	NFI 2008	Review of fair processing notice requirements carried out in accordance with the new Code of Data Matching Practice (July 2008), relevant application forms and internet updated. Data extracts completed and submitted to the Audit Commission. Results due February/March 2009.
	CPA 2008	Compilation and referencing of evidence base for Internal Control KLOE in preparation for the external Use of Resources Assessment by PwC.
	Grant Funding	Certification of various grant claims in accordance with the appropriate funding requirements including: <ul style="list-style-type: none"> ○ Football Foundation ○ Train Trail ○ Section 19 Fuel Rebate
	Annual Review of Internal Audit Effectiveness	Participated in the independent review of Internal Audit effectiveness required by the Accounts and Audit Regulations 2006. Outcome of the review, that concluded the Council has an effective system of Internal Audit, was reported to the Audit Committee in June 2008.
	Anti-Fraud Arrangements	Efforts focused upon the review of arrangements reported to the December 2008 and March 2009 Audit Committees
	Risk Management	Support provided in the production/review of the corporate and departmental risk registers
	Schools Assurance Statements	Delivered a phased introduction of assurance statements completed by primary schools to support the 2009 Annual Governance Statement
	Training on Corporate Governance Issues	Attendance at various team/management meetings to raise awareness of aspects of the governance framework
	Managers Assurance Statements	Core content updated to reflect responsibilities re- grants, property management and the capital process review

AUDIT SERVICES – KEY PERFORMANCE INDICATORS

	2008/09	
	Target	Outcome
1. The Council's Internal Control environment overall – as evaluated through CPA Use of Resources Key Lines of Enquiry (KLOE).	4/4	4/4
2. Elements of the Internal Control KLOE : <ul style="list-style-type: none"> • The Council manages its significant business risks. • The Council has arrangements in place to maintain a sound system of internal control. • The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business. 	4/4 4/4 4/4	4/4 4/4 3/4
3. Days per auditor as per CIPFA Benchmarking Statistics for Unitary Authorities.	183 Top Quartile	197 Top Quartile
4. Cost per audit day as per CIPFA Benchmarking Statistics for Unitary Authorities	£284 Second lowest quartile	£263 Second lowest quartile
5. Customer satisfaction rating received from client surveys following the completion of each audit assignment (where 1 = Very Poor to 5 = Very Good)	Average 4	Average 4.5
6. Outcome of Annual Review of the effectiveness of the system of internal audit	Effective	Effective
7. Maintain ISO 9001 : 2000 Quality Accreditation	Achieve	Achieved
8. % of planned pre determined audit assignments completed within the year relative the agreed audit plan	92%	92%
9. % of audit recommendations accepted by client, with a priority of high or medium priority	100%	100%
10. % of agreed audit assignments carried out within the year on core financial systems	100%	100%
11. % of audit assignments completed within 10% of the planned time allocated for each assignment	92%	92%
12. % of draft audit reports for each audit assignment completed within 7 working days of the exit meeting	100%	100%
13. % of final reports for each audit assignment issued within 3 working days of receipt of response to draft	100%	100%
14. % of agreed consultancy project work concluded to the satisfaction of the client manager	100%	100%

15. Maintain service costs within budget	Achieve	Achieved
16. % of workforce receiving PDRs	100%	100%
17. % of planned audit assignments where the client was given 5 working days notice of, or agreed a timescale for, the commencement of the audit	100%	100%