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**AUDIT SERVICES' ANNUAL REPORT 2009/10**

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**Purpose of Report**

1. To provide the Committee with Audit Services' Annual Report for 2009/10 in accordance with its role and terms of reference.

**Information and Analysis**

2. The Annual Audit Plan for 2009/10 was approved by this Committee in March 2009 (Minute No. A38/Mar/09) 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 generally positive. In particular, under the Use of Resources Governing the Business theme for the Council manages its risks and maintains a sound system of internal control a score of 3 was achieved that equates to 'performs well – exceeds minimum requirements'.
7. This 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 2009/10.

**Recommendations**

8. It is recommended that Audit Services' Annual Report for 2009/10 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**

- 1 Audit Services' Role and Terms of Reference
- 2 Audit Assignment Executive Summaries
- 3 Audit Advice and Consultancy Sheets
- 4 Annual Audit Letter 2008/09
- 5 CIPFA Audit Benchmarking Statistics for Unitary Authorities

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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  
2009/10**

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### **Appendices**

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Appendix 3 - Summary of the More Significant Outputs from Consultancy and Corporate Arrangements Work/Contingency Activity Undertaken During 2009/10

Appendix 4 - Audit Services - Key Performance Indicators

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## **1. Introduction**

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- 1.1 Audit Services comprises an establishment of 5 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 Area Assessment (CAA).
- 1.4 The remainder of this report chronicles in more detail operational performance during the year.

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## 2. Service Provided

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- 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 that 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 2009/10 Year In Person Days				
	Annual Plan	Actual Allocation	Variance	
			+	-
Chargeable Time				
• Audit Assignments	619	527		92
• Advice and Consultancy	241	222		19
• Corporate Arrangements	90	90		
• Contingency Allocation	105	161	56	
SUB TOTAL	1055	1000	56	111
Non Chargeable Time				
• Training, ISO Administration, Supervision and Management etc.	101	84		17
Non Productive Time				
• Annual Leave, Bank Holidays, Sickness etc.	230	302	72	
TOTAL	1386	1386	128	128

- 3.2 Actual chargeable time in total during the year was some 95% of that planned. The shortfall resulted from an instance of long-term sickness and the granting of a request by an Audit Manager to work reduced hours that reflects in the increase in non productive time.
- 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.



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#### **4. Review of Audit Assignment Work**

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- 4.1 Planned audit assignments for the year totalled 54 of which 46 were completed i.e. 85%. 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 Corporate Income, Payroll and Creditors within Cultural Services where limited assurance opinions were given. This was due to issues identified with the control of receipt books, an out of date payroll authorised signatory list and the authorisation of invoices and purchase orders. Management responded positively to the audit findings and implemented the required improvements.
- 4.3 Other instances of less than substantial assurance were more service/establishment based and in all cases, management have responded positively to the audit reviews. In respect of:
- Stressholme Catering - improvements agreed in respect of the control of confectionary sales and bar and food waste as well in the completion of prime financial records.
  - Stressholme Golf Course – improvements agreed in respect of the control of driving range income, memberships and complimentary vouchers and to contract monitoring arrangements.
  - A Secondary School - improvements actioned to implement and evidence management checks on key processes including purchasing, income and asset management.
  - Leaving Care Services – inconsistent approach to record keeping addressed, procedural framework updated and improvements actioned on data security controls.
  - Mobile Telephones (Administration of the contract and associated usage) - Corporate Policy on mobile telephones drafted and scheduled for release by Autumn 2010.
- 4.4 It is pleasing to report that, following joint work carried out with Children’s Services staff to support primary schools to gain/maintain accreditation under the Department for Children, Schools and Families (DCSF) Financial Management Standard, all eleven 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 generally 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.

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

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- 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 2010 Annual Governance Statement; approval by the Audit Committee in December 2009 of updated anti fraud policy documentation; and approval by Cabinet in February 2010 of a refreshed Risk Management Strategy following consideration of the document by the Audit Committee.
- 5.4 Systems development work included the provision of advice on the requisite control environment around the stores, procurement and job costing functions as part of the migration from the old computerised system Contractor Plus, to the new, Open Contractor, that went live at the depot in April 2010.
- 5.5 Service delivery enhancements included assistance with the implementation of a new desk top cheque production system and the migration of the BACS transmission functions from Xentrall ICT to the service users to provide a more efficient and streamlined service. Work on the Plastic Card Industry 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 has been slower than anticipated as a result of the need to upgrade third party systems and the work will remain ongoing in to 2010/11.
- 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.

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## **6. Annual Governance Statement**

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- 6.1 In accordance with statutory requirements the Council must publish an Annual Governance Statement alongside the Statement of Accounts for 2009/10.
- 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**.

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## 7. Performance Indicators

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- 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 Under the more rigorous Use of Resources Governing the Business theme for the Council manages its risks and maintains a sound system of internal control a score of 3 was achieved that equates to ‘performs well, exceeds minimum requirements’.
- 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 with the exception of completed audit assignments relative to the agreed Audit Plan where an outturn of 85% was attained against a target of 92%. This is explained by an instance of long-term sickness, the granting of a request by an Audit manager to work reduced hours and increased work required on special investigation cases.

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## **8. The Future**

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The aim of Audit Services for the year ahead is to continue to deliver an efficient and effective service as the council responds to future challenges including expected significant reductions in funding levels with delivery of its New Business Model, approved by Cabinet in November 2009.

**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	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 Letter, considered by the Audit Committee. Annual Audit Letter considered by Cabinet.

the use of resources.				
Inadequate provision of services to the people of Darlington.	Audit Commission/other External Inspection Agencies under the Comprehensive Area Assessment (CAA) regime	CAA Report on the Council/other Inspection Agencies' reports.	CAA and other reports reflected upon in the Internal Audit planning process.	CAA and other 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.
Information governance arrangements inadequate/ineffective.	Information Security Section within Xentrall, Legal Services and External Audit.	Corporate Information Governance Policy, Information Governance Strategy, Information Security Policy and associated delivery framework. Corporate Information Governance Group Agendas and Minutes. Officer/Member Training. External Audit assessment on Data	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, Information Governance Strategy and Information Security Policy approved by Cabinet. Six-monthly reports to the Audit Committee on progress

		Quality within the overall Use of Resources assessment.		with implementation of the Policies. External Audit assessment on Data Quality, within the overall Use of Resources assessment, 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.
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	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. Council's performance on health and safety reported



		the Health and Safety Unit. Officer/Member Training.		annually to Resources Scrutiny and Audit Committee.
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 considered by the Audit Committee and approved by Council. Treasury Management Procedures approved the Audit Committee. Six-monthly/Annual Reports to the Audit Committee and Cabinet on the performance of the Treasury Management function.
Financial management	Accounting Services	Medium Term Financial Plan. Corporate Budget Setting/Monitoring	Financial management arrangements subject to periodic	Medium Term Financial Plan approved by Council.

arrangements inadequate/ineffective.		processes and supporting documentation. Officer/Member Training.	Internal Audit review as part of the cyclical audit process.	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 FOR 2009/10**

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
Corporate Services	Corporate Income System	Limited	Issues identified in respect of the control of receipt books across the Authority and in respect of outstanding issues in relation to PCI compliance.	Management have responded positively to the audit findings and an action plan has been agreed to facilitate the improvements required.
	Car Parking –Administration Car Parking - Enforcement	Substantial Substantial		
	Creditors	Substantial		
	Local Taxation	Substantial		
	Balance Sheet Management	Substantial		
	Budget Management	Substantial		
	Environmental Health	Substantial		
	Payroll inc. Misc. Benefits	HR Elements – Substantial  Payroll Elements - Limited	Issues in respect of the authorised signatory list maintained by Xentrall being significantly out of date.	Xentrall management have responded positively to the audit finding and a new DBC authorised signatory list is to be in place from April 2010.
	Xentrall Contract Management Arrangements	Substantial		
	Information Governance Data Set review – Human Resource	N/A	Opinion not given as non standard appraisal. Departmental recommendations incorporated into the Payroll Audit above.	

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
			Corporate Recommendations reported to the ICT Security Manager to facilitate implementation.	
<b>Community Services</b>	Stressholme Catering	Limited	Improvements required in the control of confectionary sales, completion of prime financial records and the control of waste both in respect of bar and food.	Management have responded positively to the audit findings and an action plan has been agreed to facilitate the improvements required.
	Stressholme Golf Course	Limited	Issues identified in respect of the control of driving range income, control of memberships, performance issues with the computerised system, complimentary vouchers and contract monitoring arrangements.	Management have responded positively to the audit findings and an action plan has been agreed to facilitate the improvements required.
	Creditors (Cultural Services)	Limited	Issues identified in respect of the authorisation of invoices and purchase orders, poor BVPI8 performance and a lack of control in the classification of urgent payments.	Management have responded positively to the audit findings and an action plan has been agreed to facilitate the improvements required.
	Implementation of Capital Process Review	N/A	Opinion not given as work non standard appraisal. Projects Office only recently established and responsible for the production and monitoring of a Project Position Statement. Effort concentrated on contributing to the work of the	

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
			Project Office in the development of the capital process methodology and the monitoring process.	
	Direct Payments	Substantial		
	Information Governance Data Set Review – Direct Payments	N/A	Opinion not given as non standard appraisal. Recommendations incorporated into the Direct Payments Audit above.	
	Housing Rents	Substantial		
	Adult Services Contracting	Substantial		
	Housing Benefits	Substantial		
	Stores	N/A	Opinion not given as work non standard appraisal. Efforts concentrated on a review of systems, processes and controls to support the implementation of the new Open Contractor in April 2010.	
<b>Children's Services</b>	Trusts and Funds	N/A	Accounts audited in accordance with Charity Commission guidelines. A satisfactory position was noted.	
	Creditors	Substantial		
	Education Village	Substantial Assurance & FMSiS pass		
	Secondary Schools plus FMSiS reassessment x 4	Substantial Assurance & FMSiS pass x 3 Full Assurance & FMSiS pass x 1		

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
	Secondary School plus FMSiS reassessment	Limited Assurance plus conditional FMSiS pass	Issues identified with lack of accountability and evidenced management checks in several key processes, including purchasing, asset management and income.	Management have responded positively to the audit findings and an action plan has been implemented to deliver the improvements required.
	Primary Schools plus FMSiS Assessment x 3	Substantial Assurance & FMSiS pass x 2 Full Assurance & FMSiS pass x 1		
	Nursery Schools plus FMSiS Assessment x 2	Substantial Assurance & FMSiS pass x 2		
	Leaving Care Services	Limited	Inconsistent approach identified in respect of record keeping and certain authorisation. Procedural framework not reflective of current working practices. Improvements required in data security controls.	Management have responded positively to the audit findings and an action plan has been implemented to deliver the improvements required.
	Residential Children's Homes	Substantial		
<b>Chief Executives</b>	European Grants	N/A	Opinion not given as work non standard appraisal. Audit of grant expenditure completed in accordance with grant terms and conditions.	
	Creditors (Regeneration)	Substantial		
	Transport	Substantial		
<b>Corporate Core</b>	Local Area Agreement	N/A	Opinion not given as work non standard appraisal. Expenditure for 2008/09 verified in accordance	

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
			with grant terms and conditions to enable the Director of Corporate Services to certify the grant statement and performance information verified to support claiming of the reward grant.	
	Data Quality/Performance Indicators	N/A	Opinion not given as work non standard appraisal. Efforts concentrated upon assisting with implementation of the Council's Data Quality Strategy together with completion of a self assessment and provision of evidence in support of the Data Quality element of the 2009 Use of Resources assessment that resulted in a score of 3 that equates to the Council performs well – exceeds minimum requirements..	
	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.	
	Mayors Charity Fund	N/A	Annual audit of accounts completed.	
	T.M. Barron Charity	N/A	Accounts audited in accordance with Charity Commission	

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
			requirements. A satisfactory position was found.	
	Mobile Telephones – Administration of Contract and associated usage	Limited	Issues identified related to the need for a Corporate Policy governing management and employee responsibilities including business case for new phones, control over phone locations in respect of leavers, transfers, etc.	Management have responded positively to the audit report. The Central Procurement Unit is to take a report to the Efficiencies Board recommending the introduction of a Corporate Policy and addressing contract administration arrangements. A draft policy has been produced that is due for release by Autumn 2010.
	Petty Cash Imprests including Travel and Subsistence Payments	Substantial		
	Grants	Substantial		

<b>OPINION</b>	<b>DEFINITION</b>
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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 FOR 2009/10**

<b>Department</b>	<b>Description</b>	<b>Output</b>
<b>Corporate Services</b>	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 the approach to both the internal and external audit of the Partnership. In addition, work also undertaken with Xentrall senior management to develop effective development groups for individual service areas within Transactional Finance.
	Cheques and BACS upgraded systems	Assisted in the implementation of a new desk top cheque production system and the migration of the BACS transmission functions from Xentrall ICT to the service users to provide a more efficient and streamlined service. Both systems are now live.
	PCI Standard	Work continues on 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
	Special Investigation	Provided continued support to Police in an investigation involving the submission of a number of cheques to the Council drawn fraudulently on a third party. The case has been to Crown Court where the defendant was found guilty and given a 12 months suspended sentence.
	Special Investigation	Provided continued support to Police in respect of a case involving an overpayment made by the Council to a supplier which has not been repaid. The case remains ongoing.
	Special Investigation	Investigation undertaken in respect of a significant cash discrepancy. The case resulted in the resignation of a member of staff and referral to the police. Subsequently the individual pleaded guilty to charges of theft at Magistrates Court and was sentenced at Crown Court.
<b>Community Services</b>	Special Investigation	Investigation undertaken in respect of the submission of a significant number of potential bogus invoices. The internal investigation has been completed and the case referred to the Police.

<b>Department</b>	<b>Description</b>	<b>Output</b>
	Special Investigation	Assisted in the investigation into the alleged unauthorised use of mobile phones, Council vehicles and misappropriation of Council Stock. The investigation has been completed and resulted in the dismissal of one employee. The case has been referred to the Police.
	Special Investigation	Investigation undertaken in respect of three cases of suspected e mail abuse. The investigation has been concluded with appropriate action taken against the employees concerned. Management controls have since been strengthened.
	Special Investigation	Assisted with an investigation concerning a significant cash discrepancy. The investigation has been concluded and has resulted in the dismissal of an employee. The Police investigation remains ongoing and assistance continues to be provided as required.
	Special Investigation	Providing support to the police in respect of a significant cash discrepancy identified during the course of an audit review. The case remains ongoing.
	Special Investigation	Investigation undertaken in respect of issues identified by management in relation to the administration of an imprest account at an establishment. The investigation has been concluded and has resulted in systems and procedures being strengthened accordingly.
	Open Contractor – Replacement IT System	Provided advice on the requisite control environment around the Stores, Procurement and Job Costing functions as part of the migration from the old system Contractor Plus to the new Open Contractor. The new system went live in April 2010.
<b>Children’s Services</b>	Contact Point	Readiness assessment undertaken in preparation for organisational accreditation by the DCSF. Outcome reported to the Contact Point Steering Group who will monitor that outstanding issues are addressed. Moreover, procedures drafted covering roles and responsibilities for organisational requirement No: 7 Internal Audit.
	Procedural Documentation for Schools	Provided comment and assistance to Children’s Services Schools Finance Team in the drafting of a procedural manual for primary schools. Drafted specific sections covering Audit Services’ roles and responsibilities, FMSiS assessment and anti fraud and corruption arrangements.

<b>Department</b>	<b>Description</b>	<b>Output</b>
	Schools Commissioning	Contributed to a report to the Joint Consultative Group (JCG) covering Audit Services' role in supporting the schools commissioning and procurement agenda. The report was favourably received and an initial meeting has been held between the Children's Services Commissioning & Contracts Manager and interested parties to progress with schools.
	Contract Monitoring PFI Scheme	Work ongoing to support the establishment of an integrated contract monitoring regime. Children's Services liaising with all interested parties together with an expert external advisor to contribute to and expedite the process.
<b>Chief Executives</b>	Special Investigation	Assisted with an HR investigation.
<b>Corporate Core</b>	Use of Resources	Coordinated/assisted with the provision of evidence to support the external Use of Resources assessment by PwC. Positive outcome achieved with the Council scored at 3 in aggregate. This equates to 'performs well'.
	Anti Fraud Arrangements	Arrangements reviewed and reported to the December 2009 Audit Committee. Article drafted on the Council's zero tolerance approach to fraud that was published in the November 2009 edition of the Council's Flyer staff magazine.
	CLMS	Completed updated content in revised power point format for relevant corporate governance documents/functions. System due for re-launch in 2010.
	NFI 2008	Administered the Council's obligations under the NFI 2008 data matching exercise. PwC reviewed the adequacy of arrangements and had no concerns to report.
	Annual Governance Statement	Annual Governance Statement drafted in conjunction with the Management Group responsible, approved by the Audit Committee in June 2009, signed by the Leader and the Chief Executive and published along side the Annual Statement of Accounts.
	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 2009.

## AUDIT SERVICES – KEY PERFORMANCE INDICATORS

	2009/10	
	Target	Outcome
1. Use of Resources External Audit Assessment Governing the Business Theme - the Council manages its risks and maintains a sound system of internal control.	3/4	3/4
2. Outcome of annual review of the effectiveness of the system of internal audit.	Effective	Effective
3. Days per auditor as per CIPFA Benchmarking Statistics for Unitary Authorities.	185	190
	Top Quartile	Top Quartile
4. Cost per audit day as per CIPFA Benchmarking Statistics for Unitary Authorities	£297	£271
	Second lowest quartile	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 4.7
6. Maintain ISO 9001 : 2000 Quality Accreditation	Achieve	Achieved
7. % of planned pre determined audit assignments completed within the year relative the agreed audit plan	92%	85%
8. % of audit recommendations accepted by client, with a priority of high or medium priority	100%	100%
9. % of agreed audit assignments carried out within the year on core financial systems	100%	100%
10. % of audit assignments completed within 10% of the planned time allocated for each assignment	92%	92%
11. % of draft audit reports for each audit assignment completed within 7 working days of the exit meeting	100%	100%
12. % of final reports for each audit assignment issued within 3 working days of receipt of response to draft	100%	100%
13. % of agreed consultancy project work concluded to the satisfaction of the client manager	100%	100%
14. Maintain service costs within budget	Achieve	Achieved
15. % of workforce receiving PDRs	100%	100%
16. % 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%