
AUDIT SERVICES ANNUAL AUDIT PLAN 2005/06 – PROGRESS REPORT

**Responsible Cabinet Member(s) - Councillor Don Bristow,
Resource Management Portfolio**

Responsible Director(s) - Paul Wildsmith, Director of Corporate Services

Purpose of Report

1. To provide Cabinet with a progress report against the 2005/06 Annual Audit Plan in accordance with Audit Services' role and terms of reference.

Information and Analysis

2. Cabinet approved the Annual Audit Plan for 2005/06 in March 2005 (Minute C238/Mar/05) and this report covers progress made during the first eight months of the year i.e. to 30th November, 2005.
3. The 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. In order to portray progress three Appendices are attached: -
 - (a) **Appendix A** – states Audit Services' Key Performance Indicators and gives results or year-end projections.
 - (b) **Appendix B** – summarises the outcome from Audit Assignments undertaken and outlines those in progress.
 - (c) **Appendix C** – details some of the more significant outputs from consultancy work carried out.
5. The position is positive upon Key Performance Indicators (Appendix A). The Council's Internal Control environment overall was scored 3/4 as evaluated through the CPA Use of Resources 'harder test' methodology. This equates to a definition of 'performing well – consistently above minimum requirements'. Indeed, the Council was one of 58 single tier authorities (38%) to achieve either of the top two scores for Internal Control and one of only 13 unitary authorities (28%). The revised methodology raised the bar considerably in terms of scoring requirements and whereas previously 'adequate arrangements' were sufficient to score 3, under the new approach adequate performance scores 2. This has been the case for the risk management element of Internal Control overall. Improvements to be addressed in

an effort to achieve a score of 3 for this element next year include the requirement to report regularly to members. All other targets outlined in Appendix A are expected to be achieved, or, in the case of customer satisfaction ratings, exceeded.

6. The results of audit assignments carried out (Appendix B) indicate that the Council's internal control environment is generally sound and no major issues were identified with the core financial systems examined. There were instances where assurance was considered to be less than substantial but in each case management has responded positively to audit findings with acceptance of recommendations for improvement and implementation within agreed timescales.
7. In line with good practice, at an appropriate time, Audit Services follow up with Managers progress on implementation of recommendation agreed in audit reports. As part of this follow up, any significant recommendations which remain outstanding, are reported quarterly to Corporate Management Team. It is pleasing to report no matters of concern on this point.
8. The Section has worked on a number of consultancy projects identified in the original Audit Plan and with recognised flexibility some have been replaced by others at the request of individual Directors. Some of the more significant outputs from consultancy work carried out are identified in Appendix C. A particular noteworthy output has been the adoption by Council in September 2005 of an Anti-Fraud and Corruption Policy Statement underpinned by an Anti-Fraud and Corruption Strategy following a review of previous arrangements. These documents bring a greater clarity to arrangements by making the necessary linkages between a series of comprehensive and inter-related processes/procedures designed to prevent, detect and deter fraud and to take effective action against an attempted or actual fraudulent act affecting the Council. Adoption of these documents has assisted achievement of the score of 3 for the probity and propriety element of Internal Control overall under the CPA Use of Resources methodology.
9. The Unit has also responded to requests from Departments for financial appraisals of potential contractors for various schemes/projects and responded to routine requests for advice and guidance upon operational matters with a general focus upon the requirements of Contract and Financial Procedure Rules.

Outcome of Consultation

10. No formal consultation was undertaken in production of this report.

Legal Implications

11. This report has been considered by the Borough Solicitor for legal implications in accordance with the Council's approved procedures. There are no issues which the Borough Solicitor considers need to be brought to the specific attention of Members, other than those highlighted in the report.

Section 17 of the Crime and Disorder Act 1998

12. The contents of this report have been considered in the context of the requirements placed on the Council by Section 17 of the Crime and Disorder Act 1998, namely, the duty on the Council to exercise its functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area. It is not considered that the contents of this report have any such effect.

Council Policy Framework

13. The issues contained within this report do not represent change to Council policy or the Council's policy framework.

Decision Deadline

14. For the purpose of the 'call-in' procedure this does not represent an urgent matter.

Conclusion

15. The Council continues to operate within a control environment that is generally sound.

Recommendation

16. It is recommended that the progress report against the 2005/06 Annual Audit Plan be noted.

Reasons

17. The recommendations are supported, as they comprise part of the Council's corporate governance arrangements.

Paul Wildsmith
Director of Corporate Services

Background Papers

- (i) Audit Services' Role and Terms of Reference.
- (ii) Audit Assignment Synopsis Sheets.
- (iii) PwC Use of Resources Judgement letter dated 7th November, 2005.
- (iv) Finance Advisory Network (FAN) commentary on Use of Resources 2005 – Draft Scores.
- (v) CIPFA Audit Benchmarking Statistics for Unitary Authorities.

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AUDIT SERVICES – KEY PERFORMANCE INDICATORS 2005/06

Indicator	Target for Year	Outcome/Year End Projection
1. The Council's Internal Control environment overall – as evaluated through CPA Use of Resources Key Lines of Enquiry (KLOE).	3/4	3/4
2. Elements of the Internal Control KLOE : <ul style="list-style-type: none"> <li data-bbox="240 613 869 680">• The Council manages its significant business risks. <li data-bbox="240 689 869 757">• The Council has arrangements in place to maintain a sound system of internal control. <li data-bbox="240 766 869 878">• The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business. 	3/4 3/4 3/4	2/4 3/4 3/4
3. Days per auditor as per CIPFA Benchmarking Statistics for Unitary Authorities.	183 Top Quartile	On target to achieve
4. Cost per audit day as per CIPFA Benchmarking Statistics for Unitary Authorities	£243 Second bottom quartile	On target to achieve
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	Target likely to be exceeded
6. Maintain ISO 9001 : 2000 Quality Accreditation	Achieve	Achieved

AUDIT SERVICES SECTION

SUMMARY OF AUDIT ASSIGNMENTS UNDERTAKEN DURING FIRST EIGHT MONTHS OF 2005/06

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
Corporate Services	Central Payroll Function	Substantial Assurance		
	Sundry Debtors	Substantial Assurance		
	Loans & Investments	Substantial Assurance		
	Car Parking - Enforcement	Limited Assurance	Issues identified around the system of charging and coding of legal costs. In addition, improvements required in the control of the authorisation of write offs and the subsequent reporting of write offs in line with the Authority's Financial Procedural Rules.	Management responded positively to the report and agreed audit recommendations have been implemented.
Community Services	Stressholme Golf Course	Substantial Assurance		
	Eastbourne Sports Complex	Limited Assurance	A number of control issues identified in particular around the operation of the computerised leisure management system, inventory control and facilities hire agreements.	Management have responded positively to the report and audit recommendations have been/are to be implemented in accordance with agreed timescales.
	Civic Theatre	Limited Assurance	Review required in respect of issuing complimentary tickets and gift vouchers. All contracts need to be signed before performances take	Management have responded positively to the report and an agreed action plan has been produced to facilitate the implementation of audit

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
			<p>place. More robust procedures required for the selling of merchandise. The review of legacy systems should be expedited to ensure a robust and secure environment is maintained.</p>	<p>recommendations</p>
Development and Environment	Car Parking – Collection and Administration of Pay and Display	Substantial Assurance		
	Contracting –Building design Services	Limited Assurance	<p>The audit revealed a number of instances where key controls, such as the issuing of variation orders and support for payments were not in place, and more than one instance where key documents had been lost or misplaced. This is reflective of the fact that the service also needs to document and review operational procedures, and monitor compliance with these.</p>	<p>Management are positively addressing all the issues raised to ensure that the control environment is promptly improved. Good progress has already been made with partners Ferguson McIlveen towards reviewing and documenting Procedures.</p>

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
	Car Parking – Residents Parking	No Assurance	Fundamental control weaknesses identified with regard to income reconciliations and IT access controls to the systems database making it impossible to verify that all income and permits have been properly accounted for. Recommendations made to secure the system, reintroduce reconciliations and overhaul access rights.	Management responded swiftly to the report with the implementation of the audit recommendations.
Education	Primary Schools x 7	Full Assurance x 1 Substantial Assurance x 4 Limited Assurance x 2	1. Finance Policy requires update and formal endorsement. Robust asset management arrangements need to be put in place. 2. Governance arrangements not adequate and inconsistencies in lettings administration.	Management have responded positively to the reports, which are to be formally presented by Audit Services at the next meeting of each school's Governing Body.
	Special School x 1	Substantial		
	Libraries	Limited Assurance	The policy for public access to the internet needs to be reviewed as regards filtering and monitoring and must receive appropriate endorsement through the	Management have responded positively to the report and timescales have been agreed for implementation of all the audit recommendations.

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
			Corporate IT Working Group. The spending of a Bequest to be brought in line with its conditions. A number of further recommendations made to strengthen controls over both income and purchasing arrangements, inventories, the Galaxy libraries computer system and procedural documentation.	
	Payroll	Substantial Assurance		
	Trusts and Funds	N/A	Opinion not given as work involved annual audit of accounts & to meet Charity Commission requirements.	
Corporate Core	Performance Indicators	N/A	Opinion not given as work not standard appraisal. Effort focussed upon verifying robustness of BVPI information for CPA purposes. Positive position found.	

Assurance Opinion

Full Assurance – controls in place and operating effectively – the system should achieve its objectives.

Substantial Assurance – controls in place and operating to the extent that the system should achieve its objectives. Some control improvements required.

Limited Assurance – controls inadequate or controls in place but operating poorly – there is a risk that the system may not achieve its objectives.

No assurance – controls weak or not present or controls failing – it is likely that the system will not achieve its objectives.

SUMMARY OF AUDIT ASSIGNMENT IN PROGRESS

Department	Audit Assignment	Stage of Audit
Corporate Services	Payroll	Draft Report
	Income Collection/Reconciliation	Fieldwork commenced
	Council Tax	Fieldwork commenced
Community Services	Dolphin Centre	Fieldwork commenced
	Housing Benefits	Fieldwork commenced
Development & Environment	Payroll	Fieldwork commenced
	Contracting – Highways & Bridges	Draft Report
	Transport	Fieldwork complete
Education	Comprehensive Schools x 2	Draft Report x 1 Field work complete x 1
	Primary School x 5	Fieldwork complete x 2 Draft Report x 3
Social Services	Home Care	Draft Report
	Supported Living Scheme	Draft Report
	Harewood Hill. Lodge – Short Break Service	Fieldwork commenced

Summary of the More Significant Outputs From Consultancy Work Undertaken During First Eight Months of 2005/06

Department	Description	Output
Corporate Services	Use of Resources Key Lines of Enquiry	Extensive information supplied in support of the Council's position on relevant aspects of the Key Lines of Enquiry. This contributed to the positive results obtained.
	Giro Re-tender	Re-tender exercise undertaken in respect of the Girobank Service. Tendered via the EU procurement route, tender subsequently re awarded to Alliance and Leicester Commercial Bank (formerly Girobank).
	Banking Matters/Banking Tender	Re-tender exercise currently in progress following the EU procurement route in relation to the provision of corporate banking services.
	Sales ledger	Provided advice and guidance in respect of the automating of Bailiff payment files and the streamlining of payment profiles in respect of lease payments.
Community Services	Galathea	Advice and guidance provided in the implementation of an on line booking system for the Theatre and Arts. The system is currently in test with a live date anticipated in March 2006.
	Catering	Advice and guidance provided on the implementation of controls in respect of the introduction of the cashless school meals payment system at Hummersknott Secondary School .
	ATM Machine	Facilitate the introduction of an ATM machine at Vicarage Road.
	Housing	Provided assistance in developing the response to the Housing KLOE in respect of income management requirements.
Development and Environment	Special Investigation	Investigation undertaken into cash receipting discrepancies. Recommendations made to improve the security of income, improved reconciliations, security over access to the safe.
	Landfill Allowance Trading Scheme	Advice provided on the design and documentation of systems for on-line use of LATS register, negotiation of purchase of LATS allowances and making payments.

Department	Description	Output
Education	Education Village	Guidance upon implementation of systems and procedures at the Education Village including comment upon content of the draft Education Village Finance Policy.
	Extended Schools	Review of and comment upon content of draft Extended Schools Good Practice Guide.
	Schools Rationalisation	Closure audits completed in respect of two primary schools and a nursery school.
	Specialist School Fund	Assistance with preparation and certification of grant claim in accordance with grant terms & conditions
	Special Investigation	Providing support and assistance to the Investigating Officer at a school during an investigation into financial irregularities in respect of private school funds.
Social Services	Administration of Client Finances	Assistance with the installation of new Client Monies software together with advice on the implementation of appropriate controls.
	Care First	Advice upon division of duties for CarePay module together with other support as required.
Corporate Core	National Fraud Initiative (NFI) 2004	Liaison with departmental investigators re checking of potential data matches. Submission of NFI returns to Audit Commission within required timescales. Work carried out in conjunction with Adult Services to address data subject consultation issues for systems which potentially will be included in NFI 2006.
	Procurement Initiatives	Advice and guidance provided in facilitating the implementation of a Purchasing Card facility designed for low value/ high volume purchases with a view to making efficiencies by streamlining the current procurement cycle/process. Also facilitating the roll out of purchasing cards across the Authority to facilitate the purchase of ad hoc/ internet purchases etc.
	Anti Fraud & Corruption Strategy	Anti-Fraud and Corruption arrangements updated, approved by Council and constitution amended accordingly.

Department	Description	Output
Corporate Core	Mayor's Charity Fund	Annual audit of accounts completed.
	Partnerships	Initial work underway to establish a corporate framework to formalise the arrangements for the development and governance of partnerships.