
AUDIT SERVICES ANNUAL AUDIT PLAN 2007/08 – PROGRESS REPORT

Purpose of Report

1. To provide Members with a progress report against the 2007/08 Annual Audit Plan in accordance with Audit Services' role and terms of reference.

Information and Analysis

2. The Annual Audit Plan for 2007/08 was approved by the Audit Committee in June 2007 (Minute A15/Jun/07) and this report covers progress made during the first five months of the year i.e. to 31st August, 2007.
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** – summarises the outcome from Audit Assignments undertaken and outlines those in progress.
 - (b) **Appendix B** – details some of the more significant outputs from consultancy/corporate arrangements work/contingency activity carried out.
 - (c) **Appendix C** - states Audit Services' Performance Indicators and gives results or year-end projections
5. The results of audit assignments carried out to 31st August, 2007 are shown at Appendix A. Audit work was undertaken on the core financial systems of corporate income, council tax and departmental creditors. All resulted in substantial assurance opinions with the exception of creditors in the Adult Services area of Community Services where an opinion of limited assurance was given. This was due primarily to issues identified around the manual pre authorisation of invoices and segregation of duties. A fraudulent payment has been identified resulting in a police investigation that remains ongoing. Immediate action has been taken by management to strengthen internal controls in this respect.
6. Other instances of less than substantial assurance were more service based and in both cases, management have responded positively to the audit reviews. The Assistant Director - Development and Regeneration in conjunction with the Planning Services Manager have progressed recovery of outstanding Section 106 monies and the identification of required actions and a robust system of internal control to cover this aspect of business has been agreed and is to be implemented by the end of September 2007. In respect of Car Parks Enforcement, improvements are being undertaken to the current systems in order to

establish consistent recording, monitoring and reporting of all costs awarded to the Authority. A formal protocol is to be established to enable the reimbursement to the Car Parking Section of legal costs recovered through the Courts.

7. In line with good practice, at an appropriate time, Audit Services follow up with Managers progress on implementation of recommendations agreed in audit reports. It is pleasing to report no matters of concern on this point both from an internal and external audit perspective.
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, corporate arrangements work and contingency activity carried out are identified in Appendix B. Of particular note are :-
 - (a) the 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.
 - (b) joint work carried out with Children's Services staff upon supporting a phased programme for primary schools to gain accreditation under the DFES Financial Management Standard following the successful accreditation of all secondary schools in 2006/07.
 - (c) the initiation of discussions with colleagues from Stockton Internal Audit and the respective external auditors, PwC and the District Audit Service, to consider audit arrangements for the proposed Darlington and Stockton Partnership.
9. In addition, work has continued to further implement/develop use of the new audit management software, MK Insight, to streamline the audit process.
10. The position is positive upon Key Performance Indicators (Appendix C) with operational targets likely to be achieved. Assessment work on the CPA Use of Resources Internal Control Environment KLOE is scheduled for Autumn 2007 by PwC.
11. 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.

Legal Implications

12. 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

13. 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. Other than the specific issues raised, it is not considered that the contents of this report have any such effect.

Recommendations

14. It is recommended that the progress report against the 2007/08 Annual Audit Plan be noted.

Brian James
Chief Internal Auditor

Background Papers

- (i) Audit Services' Role and Terms of Reference.
- (ii) Audit Assignment Executive Summaries.
- (iii) Audit Advice and Consultancy Sheets

Brian James : Extension 2140

**AUDIT SERVICES SECTION
SUMMARY OF AUDIT ASSIGNMENTS UNDERTAKEN DURING THE FIRST FIVE MONTHS OF 2007/08**

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
Corporate Services	Corporate Income System	Substantial Assurance		
	Council Tax	Substantial Assurance		
	Creditors	Substantial Assurance		
	Car Parking Enforcement	Limited Assurance	Significant improvements are required to the current systems to: <ul style="list-style-type: none"> • establish consistent recording, monitoring and reporting of all costs awarded to the authority. • enable the reimbursement to the Car Parking Section of legal costs recovered through the courts. • strengthen controls over the processing of Magistrates Court payment lists and • restrict IT access to spreadsheet records to authorised staff 	Management have responded positively to the recommendations within the audit report and an action plan has been formulated to implement improvements within agreed timescales
Community Services	Dolphin Centre	Substantial Assurance		
	Horticulture-Woodburn Nursery	Substantial Assurance		
	Creditors – Adult Services	Limited Assurance	Issues identified around the manual pre authorisation of invoices and segregation of duties. A fraudulent payment has been identified resulting in a police investigation that remains ongoing.	Immediate action has been taken by Management to strengthen internal controls.

APPENDIX A

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
	Creditors – Catering	Substantial Assurance		
Development and Environment	Car Parking Administration Residents Parking	Substantial Assurance Substantial Assurance		
	Creditors	Substantial Assurance		
	Development Control and Planning	Substantial Assurance for the control environment excluding 106 agreements Limited Assurance in respect of 106 agreements	Lack of coordinated systems to control and monitor Section 106 agreements and the resultant income.	Management had already recognised this matter and work had commenced to identify and recover monies due and identify required actions. This exercise is continuing. A steering group of relevant parties has agreed an appropriate control system that is to be implemented by the end of September 2007.
	Trusts and Funds	N/A	Accounts audited in accordance with Charity Commission requirements. A satisfactory position was found.	
Children’s Services	Kids & Co. Nursery Service	Substantial Assurance		
Corporate Core	Data Quality/Performance Indicators	N/A	Opinion not given as work non-standard appraisal. Efforts concentrated upon following up PwC’s 2006/07 data quality review and spot checks report in preparation for the 2007 audit.	

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
	Mayors Charity Fund	N/A	Accounts audited on an annual basis. A satisfactory position was found	

Assurance Opinion

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 AUDIT ASSIGNMENT IN PROGRESS

Department	Audit Assignment	Stage of Audit
Corporate Services	Sundry Debtors	Fieldwork commenced
	ICT - Review of Interfaces and Associated Controls	Fieldwork commenced
	Registrars	Fieldwork commenced
Corporate Core	Grants	Fieldwork commenced
Community Services	Dolphin Centre Catering	Fieldwork commenced

Summary of the More Significant Outputs From Consultancy/Corporate Arrangements Work/Contingency Activity Undertaken During the First Five Months of 2007/8

Department	Description	Output
Corporate Services	Darlington and Stockton Partnership	Discussions initiated and ongoing with colleagues in Stockton Internal Audit and the respective External Auditors, PwC and the District Audit Service, to consider the approach to both the internal and external audit of the proposed Partnership.
	Financial Appraisal Contract	Participated in a joint procurement exercise with neighbouring authorities to engage a financial appraisal service by competitive tender in conjunction with NEPO.
Community Services	Galathea	Provided ongoing advice and guidance in the implementation of an on line booking system for the Theatre and Arts. The system is ready in test and due to go live as part of the implementation of the new Leisure and Arts website.
	Dolphin Centre	Provided ongoing advice and guidance in the implementation of an on line booking system for Leisure Services.
	Plastic Card Industry Data Security Standard	Leading on 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.
	Special Investigation	Investigations undertaken into a potentially bogus invoice identified during a routine audit check. Police informed and their investigation remains ongoing. Action has been taken to strengthen appropriate internal control mechanisms
Children's Services	Special Investigation	Ongoing work undertaken in respect of a cash discrepancy at a primary school in 2006/07 following which revised procedures were recommended and implemented in all primary schools. The case has now been through the magistrates Court and has had a first appearance at Crown Court. The case has been deferred until December to allow further consideration of the evidence.
	Financial Management Standard in Schools (FMSiS)	Joint working with Children's Services staff to roll out the standard in identified primary schools in preparation for their assessments to be carried out from September 2007 onwards.

Department	Description	Output
Corporate Core	Local Area Agreement	Expenditure for 2006/07 verified in accordance with grant terms and conditions to enable the Director of Corporate Services to certify the grant statement.
	Review of Contract/Financial Procedure Rules	Participated/Participating in the reviews. Refreshed Financial Procedure Rules that incorporate a section upon partnership working approved by Annual Council in May 2007. Review of Contract Procedure Rules ongoing.
	NFI 2006	Liaison with identified departmental representatives to progress checks on potential matches. First return made to the Audit Commission 31/05/07. Progress made on assimilation of additional data required on Council tax single persons discount/register of electors to be forwarded to the Audit Commission in October and December 2007.
	CPA 2007	Contributed to the self -assessment information submitted to PwC for evaluation under the CPA Use of Resources Key Lines of Enquiry (KLOE's).
	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 2007.
	Code of conduct for officers & employees	Code being reviewed and updated in conjunction with colleagues in HR and Legal Services. Draft code to be presented to September 2007 meeting of the Standards Committee. Once agreed and finalised the code is to be reissued to officers and employees and rolled out to schools following consultation in the 2008 summer term.

AUDIT SERVICES – KEY PERFORMANCE INDICATORS 2007/08

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	Assessment work scheduled for Autumn 2007
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. 	3/4 3/4 3/4	Assessment work scheduled for Autumn 2007
3. Days per auditor as per CIPFA Benchmarking Statistics for Unitary Authorities.	185 Top Quartile	On target to achieve
4. Cost per audit day as per CIPFA Benchmarking Statistics for Unitary Authorities	£285 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	On target to achieve
6. Maintain ISO 9001 : 2000 Quality Accreditation	Achieve	Inspection visit scheduled for later in the financial year
7. % of planned pre determined audit assignments completed within the year relative the agreed audit plan	92%	92%
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	On target to achieve
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%
17. % of financial appraisal requests completed within 2 working days or agreed timescale	100%	100%