
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 eight months of the year i.e. to 30th November 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 in this respect 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 30th November 2007 are shown at **Appendix A**. Audit work has been undertaken on the core financial systems of corporate income, council tax/NDR, sundry debtors and departmental creditors. All have 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 instance was included in the previous progress report to this Committee in September 2007.
6. Other instances of less than substantial assurance were more service based and in both cases, as previously reported, management have responded positively to the audit reviews.
7. It is worth commenting that the audit of primary schools has commenced, including an evaluation of compliance against the DfES Financial Management Standard and pleasing to report that the six primary schools audited to date are all considered to have attained the standard.

8. 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.
9. 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 or curtailed as a result of staff vacancies. 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) a redraft of the Council's Local Code of Corporate Governance to reflect the latest publication on the subject from CIPFA/SOLACE entitled 'Delivering Good Governance in Local Government'. The draft is to be considered by this Committee under a separate agenda item.
 - (b) 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. Work remains ongoing in this respect with a projected compliance date during 2008/09.
 - (c) ongoing 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 and involvement in the process mapping of systems to facilitate the implementation of the partnership.
10. Positive progress has also been made on the implementation of recommendations agreed following the 2006/07 Review of Internal Audit Effectiveness as reported to the June 2007 Committee. e.g. an Audit Strategy has been drafted and will be subject to the approval of this Committee. A summary of the current position on all recommendations is outlined at Appendix D.
11. The audit assignment element of the Audit Plan has been amended with the agreement of individual Directors to reflect the recent restructure of the organisation, work required to date on the Darlington and Stockton partnership and as a consequence of posts vacant for a period during the course of the year. It is now planned that audits of school meals, an IT audit and contract audit for both Highways and Building and Design Services will be carried forward into 2007/08. In respect of Contract Management, consultancy will be undertaken this year to contribute to the Capital Process Review and to advise on the contract management function systems and processes. In addition, further work will be undertaken to establish that the revised Section 106 control system is in place and working.
12. At this stage of the year the position remains positive upon Key Performance Indicators (**Appendix C**) with operational targets likely to be achieved. However as work with regard to the implementation of the Darlington and Stockton Partnership gathers pace in the coming months and the induction / training of new staff is required, the position will be closely monitored.

13. The Section has responded to requests from Departments for financial appraisals of potential contractors for various schemes/projects and to routine requests for advice and guidance upon operational matters.

Legal Implications

14. 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

15. 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

16. It is recommended that the progress report against the 2007/08 Annual Audit Plan be noted and the proposed adjustments to the plan, outlined in paragraph 11 be approved.

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

Brian James : Extension 2140

AUDIT SERVICES SECTION

SUMMARY OF AUDIT ASSIGNMENTS UNDERTAKEN DURING THE FIRST EIGHT 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/NDR	Substantial Assurance		
	Creditors	Substantial Assurance		
	Car Parking Enforcement	Limited Assurance	<p>Significant improvements required to the current systems to:</p> <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 	<p>Management have responded positively to the recommendations within the audit report and an action plan has been formulated to implement improvements within agreed timescales</p>
	Sundry Debtors	Substantial Assurance		
	ICT Review of Interfaces and Associated Controls	Substantial Assurance		
	Registrars	Substantial Assurance		
Community Services	Dolphin Centre	Substantial Assurance		
	Horticulture-Woodburn Nursery	Substantial Assurance		

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
	Creditors – Adult Services	Limited Assurance	Issues identified around the manual pre authorisation of invoices. A fraudulent payment was identified that resulted in a police investigation that remains ongoing. Immediate action has been taken by Management to strengthen internal control. Further strengthening of controls has also been introduced in respect of the return of cheques to departments	Management have responded positively to the recommendations within the audit report and an action plan has been formulated to implement improvements within agreed timescales. New systems have been implemented to strengthen controls around the pre authorisation of invoices and the return of cheques to the Department.
	Creditors – Catering	Substantial Assurance		
	Dolphin Centre Catering	Substantial Assurance		
Development and Environment	Car Parking Administration Residents Parking	Substantial Assurance Substantial Assurance		
	Creditors	Substantial Assurance		

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
	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 now complete. A steering group of relevant parties has agreed an appropriate control system that was implemented in early October 2007.
Children's Services	Kids & Co. Nursery Service	Substantial Assurance		
	Primary schools x 6	Substantial Assurance plus accreditation attained under the DfES Financial Management Standard		
	Trusts and Funds	N/A	Accounts audited in accordance with Charity Commission guidelines. A satisfactory opinion was given.	
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.	
	Corporate Governance	N/A	Opinion not given as work non-standard appraisal. Effort	

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
			directed to validating evidence quoted in document/functions on the implementation of the Local Code of Corporate Governance posted on the intranet.	
	Mayors Charity Fund	N/A	Accounts audited on an annual basis. A satisfactory position was found	
	Review of Anti-Fraud Arrangements	N/A	Opinion not given as work non-standard appraisal. Effort focused upon the annual review of arrangements reported to the December 2007 Audit Committee.	

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
Children's Services	Primary Schools x 1	Fieldwork commenced
Corporate Services	Payroll Audit Community Services	Fieldwork commenced
	Payroll Audit Homecare	Fieldwork commenced
Corporate Core	Grants	Audit ongoing

Summary of the More Significant Outputs From Consultancy/Corporate Arrangements Work/Contingency Activity Undertaken During the First Eight 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. Involvement in process mapping/re engineering workshops for the various affected services.
	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. Subsequently orchestrated the transfer of the financial appraisals function to the Procurement Section. Providing ongoing training as required.
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 due to go live on 1st December.
	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. Seeking to attain accreditation during 2008/09
	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.
	Special Investigation	An allegation of misappropriation of Council property by a Council employee investigated and concluded with no evidence of misappropriation proven.
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 2007 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 Code of Corporate Governance	Local Code redrafted to reflect the latest CIPFA/SOLACE guidance upon corporate governance. Revised Code to be considered by the Audit Committee in December 2007 prior to seeking Council approval in January 2008.
	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. Additional data required on Council Tax single persons discount forwarded to the Audit Commission in October 2007
	CPA 2007	Contributed to the self -assessment information submitted to PwC for evaluation under the CPA Use of Resources Key Lines of Enquiry (KLOEs).
	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	Existing code reviewed in conjunction with colleagues from HR and Legal Services. Draft Code considered by Standards Committee and the Joint Consultative Committee and subject to Council approval on 29th November 2007. Once approved the Code is to be reissued to employees. The Code is also to be rolled out to schools following consultation during the summer term 2008.

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 undertaken Autumn 2007- awaiting outcome
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 undertaken Autumn 2007-awaiting outcome
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%

**REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT 2006/7
Improvement Action Plan – Progress to Date – November 2007**

Recommendation	Audit Services Response	Action to be taken	Timescale for Implementation	Current Position
1. Develop an Internal Audit Strategy Document	Accepted Currently no separate strategy document is maintained. The principles of service delivery are enshrined in the Section’s Role and terms of reference	Consideration to be given to the production of a formal strategy document to complement the Section’s Role and terms of reference.	December 07	Strategy document now complete. Subject to approval by the Audit Committee December 2007.
2. Formalise access policy for audit files and records	Accepted Currently only External Audit have access. Any other access is granted at the discretion of the Chief Internal Auditor.	A policy to be formalised and integrated into the Section’s Quality management System.	September 07	A policy has been introduced to cover both external access to electronic files including access to the audit e drive and to the release of paper based documents as applicable. This access policy has been incorporated within the section’s Quality Management System.
3. The Chief Internal Auditor seek to further establish lines of communication with the regulatory and inspection agencies that interact with the organisation.	Accepted The section is seeking to be more pro actively involved in this area and this is reflected in the revised Role and Terms of Reference to be considered by the Audit Committee in June 07.	The section to further explore avenues in this regard.	December 07	Discussions taking place with the Assistant Chief Executive to establish the most appropriate channels of communication..
4. The section to continue to further develop it’s use of new audit software with a view to further streamlining the audit process and developing a paperless system. This to include the migration of the current risk assessment system onto the new software system to provide better integration when the opportunity will also be taken to refresh the current risk	Accepted Improvements as detailed in the section’s Annual Audit Report.	The section will continue to develop the audit management software throughout 2007/08. Particular emphasis will be placed on the integration of the current	Development work to continue throughout 07/08 Integration of the Risk Assessment system December	The section has effectively achieved a paperless system for use when conducting internal audit reviews. All audits are now undertaken utilising electronic working papers stored on the Sections e drive linked to the audit software package. No paper files are now maintained in respect

assessment approach.		risk assessment system with a view to being able to place reliance on the new software for the 2008/9 planning process.	07.	of audit reviews. All previous paper files have now been scanned, etc. to form an electronic audit database. The risk management methodology has been refreshed and refined to account for a broader range of risk factors. The audit universe will be “rescored” in December 07 to account for the revised risk factors and the scores migrated onto the audit software to facilitate planning purposes for 08/09.
----------------------	--	---	-----	---