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**AUDIT SERVICES ANNUAL AUDIT PLAN 2006/07 – PROGRESS REPORT**

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**Purpose of Report**

1. To provide Members with a progress report against the 2006/07 Annual Audit Plan in accordance with Audit Services' role and terms of reference.

**Information and Analysis**

2. The Annual Audit Plan for 2006/07 was approved by the Audit Committee in July 2006 (Minute A6/July/06) and the Committee noted progress for the first eight months of the year in December 2006 (Minute A22/Dec/06). This report covers cumulative progress made during the first eleven months i.e. to 28th February, 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 work 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 28th February, 2007 are shown at Appendix A. The audit work to date has covered the core financial systems of corporate income, creditors, debtors, housing rents and council tax/NDR. All have resulted in substantial assurance opinions with the exception of council tax/NDR where management have agreed to recommendations to improve principally, systems security and also subsidiary controls around refunds, BACS processing, credit balances and transfers between accounts . There were other examples where assurance was considered to be less than substantial but these instances are more establishment related or service based and in each case management has responded positively to audit findings with acceptance of recommendations for improvement and implementation within agreed timescales.
6. In line with good practice, at an appropriate time, Audit Services follow up with Managers progress on implementation of recommendations agreed in audit reports. As part of this follow up, any significant recommendations, which remain outstanding, are reported to this

Committee and a separate report is included on the agenda for this meeting.

7. 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 B. As a follow on from the previous report and the joint work carried out with Children's Services staff to support secondary schools to gain accreditation under the new DFES Financial Management Standard by the required date of 31st March, 2007, it is pleasing to report that the seven schools reviewed were considered to have attained the Standard.
8. The audit assignment element of the Audit Plan has been amended previously with the agreement of individual Directors and subsequent approval by this Committee to reflect the need to review all the comprehensive schools under the Financial Management Standard and the secondment of an Audit Manager to undertake specific business process re-engineering work within the Department (Minute A22/Dec/06). It is now planned that the Development Control and Planning audit be carried forward into 2007/08 to enable time to be devoted to the validation of the mayoral petition at the request of the Director of Corporate Services.
9. The position is positive upon Key Performance Indicators (Appendix C). The Use of Resources auditor scored judgement targets of 3 overall and by element for the Council's Internal Control environment have been achieved. All operational targets are also likely to be achieved with the exception of the percentage of pre-determined audit assignments completed within the year relative to the agreed initial audit plan and the percentage of agreed audit assignments carried out within the year on core financial systems. The percentages will be slightly below target for the reasons outlined in paragraph 8 above.
10. 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.
11. Outside the Annual Audit Plan overtime has been worked upon a weekend to implement new audit management software to help deliver efficiency savings and achieve a paperless process. The cost of this development time has been contained within the existing budget for Audit Services.

### **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. 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 2006/07 Annual Audit Plan be noted and the proposed adjustment to the plan, outlined in paragraph 8, be approved .

**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 FIRST ELEVEN MONTHS OF 2006/07

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
Corporate Services	Corporate Income System	Substantial Assurance		
	VAT	Substantial Assurance		
	Insurance	Substantial Assurance		
	Job Evaluation/Single Status	N/A	Opinion not given as work not standard appraisal Work undertaken in two stages, first covering initial implementation of new pay structures following job evaluation. Second stage covering back pay arrangements. The first stage was implemented successfully, however issues with the backpay arrangements were identified due in part to the complexity of the calculations and resourcing issues within the section.	All arrears have now been paid, all identified queries have been resolved and leavers who have requested payment are being paid in March. Due to the implementation of the new payroll system, some back checking has been delayed until the new financial year.
	Central Creditors	Substantial Assurance		
	Council Tax/NDR	Limited Assurance	Improvements required in respect of IT user security , embedding the role of Systems Administrator, around the processing of BACS payments, refunds, RD Cheques and reviewing the recovery process.	Management have responded positively to the recommendations within the audit report and an action plan has been formulated to implement improvements within agreed timescales.

**APPENDIX A**

<b>Department</b>	<b>Audit Assignment</b>	<b>Assurance Opinion</b>	<b>Where Assurance Opinion Less Than Substantial</b>	
			<b>Audit Comment</b>	<b>Management Response</b>
	Sundry Debtors	Substantial Assurance		
Community Services	Arts Centre	Limited Assurance	A number of control issues identified around management of the permanent Arts Collection; income; stock and inventory control; management of leases and hire agreements', debt recovery; and security of the premises.	Management have responded positively to the recommendations within the audit report and an action plan has been formulated to implement improvements within agreed timescales.
	Arts Centre Catering	Limited Assurance	Improvements required to the arrangements operated to control the bars function, including security and accuracy of the EPOS tills system, wastage control, cash controls and operational procedures	Management have responded positively to the audit report and an action plan has been formulated to implement improvements within agreed timescales.
	Community Equipment Service	Limited Assurance	Issues identified with the completeness, accuracy and timeliness of information reported from the data management system.	Management have responded positively to the audit report and have confirmed that all high and medium recommendations with a timescale of November 2006 have been implemented. Work is ongoing to implement the remaining recommendations within agreed timescales
	Creditors (3 separate reports issued) Leisure Services Housing Admin and Wardens Performance Development and	Substantial Assurance Substantial Assurance		

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<b>Department</b>	<b>Audit Assignment</b>	<b>Assurance Opinion</b>	<b>Where Assurance Opinion Less Than Substantial</b>	
			<b>Audit Comment</b>	<b>Management Response</b>
	Community Partnerships	Substantial Assurance		
	Trade Refuse	Substantial Assurance		
	Housing Rents	Substantial Assurance		
	Vehicles and Plant	Substantial Assurance		
Development and Environment	Markets	Limited Assurance	Improvements required around the control of parking permits, the letting of stalls and insurance arrangements, cattle markets tolls and levies, rival markets and stock control.	Management have responded positively to the recommendations within the audit report and an action plan has been formulated to implement improvements within agreed timescales.
	Licensing	Limited Assurance	A high level of errors were found in the premises licences, this being the biggest risk to the service's ability to perform effectively. Improvements have also been recommended in the control over miscellaneous licences and the granting of street-to-street collections and documentation of enforcement actions. Improvements over the supervisory checks on bankings and security of safe keys have also been recommended.	Management have responded positively to the recommendations within the audit report and an action plan has been formulated to implement improvements within agreed timescales

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<b>Department</b>	<b>Audit Assignment</b>	<b>Assurance Opinion</b>	<b>Where Assurance Opinion Less Than Substantial</b>	
			<b>Audit Comment</b>	<b>Management Response</b>
	Building Control Estates	Substantial Assurance  Limited Assurance	<p>Improvements recommended in the documenting of internal operational procedures, file formats and the retention of documentation to ensure a consistency of approach.</p> <p>That the Uniform System become the prime system for recording the details of holdings and the use and reliance on excel spreadsheets to cease over a period of time.</p> <p>Recommendations for a protocol to be established between the Estates Section and Accountancy Services in relation maintaining the Asset Register; for revised billing arrangements to be actioned as a matter of urgency in relation to one leaseholder.</p> <p>The Risk and Facilities Management function was considered to be a very positive initiative and a recommendation has been made around resourcing of the function.</p>	<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>
Children's Services	E Learning Centre	Substantial Assurance		

**APPENDIX A**

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
	Trusts and Funds	N/A	Accounts audited in accordance with Charity Commission requirements. A satisfactory position was found.	
	7 x Comprehensive schools	Substantial Assurance & FMSiS Pass		
	5 x Primary Schools	4 x Substantial Assurance 1 x Minimal Assurance	Recommendations made at the previous audit largely not implemented. Findings at this audit disclosed weak controls and poor practice in the majority of areas examined.	The Head Teacher has responded positively to the audit recommendations with the majority implemented immediately or by December 2006. Work is ongoing to implement the remaining recommendations within agreed timescales
Corporate Core	Mayor's Charity Fund	N/A	Accounts audited on an annual basis. A satisfactory position was found.	
	Corporate Governance	N/A	Opinion not given as work not standard appraisal. Effort directed to validating evidence quoted in documents/functions on implementation of the Local Code of Corporate Governance posted on the intranet.	
	Performance Indicators/Data Quality	N/A	Opinion not given as work not standard appraisal. Effort	



**APPENDIX A**

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
			focused on contributing to a self assessment document compiled with reference to the Data Quality Key Lines of Enquiry that was submitted to PwC for evaluation. Report issued by PwC in November 2006 reflects a positive assessment.	

**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.

**No 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	Central Payroll	Fieldwork commenced
“	Teachers and Supply Payroll	Fieldwork commenced
“	Bank Reconciliation	Fieldwork commenced
“	IT Audit	Fieldwork Commenced
Core Corporate	TM Barron Charity	Fieldwork commenced
Community Services	Housing Benefits	Fieldwork ongoing
Children’s Services	1 Primary School	Fieldwork commenced
“	Creditors	Fieldwork substantially completed

**APPENDIX A**

<b>Department</b>	<b>Audit Assignment</b>	<b>Stage of Audit</b>
Development and Environment	Creditors	Fieldwork substantially completed

**Summary of the More Significant Outputs From Consultancy Work Undertaken During First Eleven Months of 2006/07**

<b>Department</b>	<b>Description</b>	<b>Output</b>
Corporate Services	Darlington Stockton Partnership	Participated in workshops established to look into options on the partnership governance arrangements. In addition, provided ongoing advice and guidance in respect of the control aspects of the acquisition and implementation of a new FMS and Payroll system.
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 currently in test with a live date anticipated before end of financial year.
	Local Public Service Agreement Targets	Reviewed arrangements to finalise the reporting of targets in line with their definitions.
	Learning Disability Service	Contributed to a workshop review of the commissioning function. Action plan produced which is being addressed by the Department
	Experian	Facilitated a training session with the Credit Reference Company Experian, on behalf of Housing Management and the Housing Benefit Enquiry Unit to allow them to access on line confidential personal information in accordance with Statutory guidelines to improve debt collection and fraud investigation response times. Service now being introduced within the Anti Social Behaviour Unit
	Special Investigations	Investigation undertaken in respect of a cash discrepancy. Recommendations made to reiterate the requirement to follow the approved processes in respect of security of income, reconciliations, security over access to the safe/safe keys. In addition, preliminary work to substantiate possible irregularities and mismanagement of a social fund. Findings reported to management for potential formal investigation.
Development and Environment	Special Investigation	Investigation undertaken into cash discrepancies. Recommendations made to improve the security of income reconciliations and to follow approved procedures in relation to security over access to the safe.
	Railway Museum	Investigation carried out into concerns raised by an employee with regard to training and working practices, which were discussed with management and satisfactorily resolved.
	Railway Museum	Review undertaken of financial administration practices in respect of special weekend events being held at the Museum. Audit Services to provide advice and guidance to all future events to ensure procedures are robust and provide accountability.

**APPENDIX B**

<b>Department</b>	<b>Description</b>	<b>Output</b>
	Pedestrian Heart	At the request of the Chief Executive and Director of Corporate Services, reviewed the process followed for the engagement of the Consultant, Contractor and for the selection of the form of contract. Improvements recommended to be implemented pending completion of the Leading Edge Procurement Project. Subsequently supported the Pedestrian Heart Task and Finish Review Group established by Resources Scrutiny Committee to look into the project to date and to give oversight to a review of future capital project management.
Children's Services	Financial Management Standard in Schools (FMSiS)	Training session attended jointly with Children's Services staff on the arrangements for FMSiS. Schools audit approach reviewed and external assessment of secondary schools to be carried out by Audit Services staff by 31st March 2007.
	Sixth Form Funding & Education Maintenance Allowances	Data assurance verification carried out at a secondary school on behalf of the Learning & Skills Council.
	Hummersknott School	Assistance with procedural matters arising from the implementation of the new financial management system.
	Children's Residential Homes	Contributed to the revision of procedures following a routine audit in 2005/06. Updated procedures are now in place.
	Special Investigation	Investigations undertaken into cash discrepancies at a primary school. Police informed and are undertaking an investigation. Recommendations have been made to improve financial controls.
Corporate Core	Corporate Procurement Leading Edge Project	Contributed to the re engineering of the Council's procure to pay process.
	Manager's Assurance Statements (MAS)	Managers Assurance Statements to support the completion of the statement of internal control developed and awareness raised with Departmental Management Teams. Formal introduction planned for Spring 2007.
	Audit Committee	Appropriate training for Audit Committee organised/delivered.
	Partnership Initiatives	Contributing to the pilot testing of the draft Partnership Toolkit with colleagues from the Policy Unit and the Darlington Partnership.
	NFI 2006	Consultation carried out with data subjects via the Joint Consultative Committee and by articles in the Flyer and tenants Hot News magazine. Data extracted for relevant datasets and submitted to the Audit Commission in accordance with prescribed timescales.
	Training – Corporate governance Issues	Facilitated a training session with an external consultant to raise staff awareness of anti fraud & corruption arrangements, which, was supplemented by an article in the July issue of the Flyer.

**APPENDIX B**

<b>Department</b>	<b>Description</b>	<b>Output</b>
	CPA 2006	Contributed to the self assessment overview and detail document submitted to PwC under the CPA Use of Resources 'harder test'. Positive assessment resulted.
	Statement of Internal Control	Co-ordinated the production of the annual statement of internal control.

**APPENDIX C**  
**AUDIT SERVICES – KEY PERFORMANCE INDICATORS 2006/07**

<b>Indicator</b>	<b>Target for Year</b>	<b>Outcome/Year End Projection</b>
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>• The Council manages its significant business risks.</li> <li>• The Council has arrangements in place to maintain a sound system of internal control.</li> <li>• The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.</li> </ul>	3/4 3/4 3/4	3/4 3/4 3/4
3. Days per auditor as per CIPFA Benchmarking Statistics for Unitary Authorities.	187 Top Quartile	On target to achieve
4. Cost per audit day as per CIPFA Benchmarking Statistics for Unitary Authorities	£269 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
7. % of planned pre determined audit assignments completed within the year relative the agreed audit plan	93%	88%
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%	92%
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%