
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 eleven months of the year i.e. to 29th February, 2008.
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 29th February, 2008 are shown at **Appendix A**. Audit work has been undertaken on the core financial systems of corporate income, council tax/NDR, housing rents, sundry debtors, payroll and 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. As a consequence, systems have been improved and strengthened to prevent a reoccurrence of the issues identified.
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 is nearing conclusion, including an evaluation of compliance against the DCSF Financial Management Standard and pleasing to

report that the eleven 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 endorsed by this Committee in December 2007 was approved by Council in January 2008 and all Members were notified of the framework behind production of the Annual Governance Statement.
 - (b) discussions continue 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. In addition to the amendments to the audit assignment element of the Audit Plan previously reported to the December Committee, it is now planned to carry forward into 2008/09 the audit of Transport to enable the necessary support to be provided on special investigations currently in progress.
11. The position is positive upon Key Performance Indicators (**Appendix C**) with targets achieved/exceeded or likely to be achieved. The only exception is the percentage of planned audit assignments completed within the year, relative to the agreed Audit Plan where the percentage will be slightly below target as a result of audit assignments carried forward into 2008/09.
12. 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

13. 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

14. 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

15. It is recommended that the progress report against the 2007/08 Annual Audit Plan be noted and the proposed adjustment to the plan, outlined in paragraph 10 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

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AUDIT SERVICES SECTION

SUMMARY OF AUDIT ASSIGNMENTS UNDERTAKEN DURING THE FIRST ELEVEN 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		
	Central Creditors Function	Substantial Assurance		
	Car Parking Enforcement	Limited Assurance	<p>Significant improvements are 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 	Management have responded positively to the recommendations within the audit report and an action plan has been formulated to implement improvements within agreed timescales
	Sundry Debtors	Substantial Assurance		
	ICT Review of Interfaces and Reconciliations	Substantial Assurance		
	Registrars	Substantial Assurance		

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
	Payroll Community Services including craft, building,, cleaning and leisure	Substantial Assurance		
	Bank Reconciliation	Substantial Assurance		
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. A fraudulent payment has been identified resulting 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.
	Creditors – Catering	Substantial Assurance		
	Dolphin Centre Catering	Substantial Assurance		
	Admin of Client Finances	Substantial Assurance		
	Housing Rents	Substantial Assurance		
Development and Environment	Car Parking Administration	Substantial Assurance		
	Residents Parking	Substantial Assurance		

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
	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. 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		
	Creditors	Substantial Assurance		
	Primary schools x 11	Substantial Assurance		
	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 that proved positive.	
	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 documents/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.	
	Risk Management	N/A	Opinion not given as work non-standard appraisal. Support provided in the production/review of the corporate and departmental risk registers.	

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	Children's Centres	Fieldwork commenced
	1 Primary School	Fieldwork commenced
Corporate Services	Payroll -Homecare	Fieldwork ongoing
	Payroll Central Function	Fieldwork commenced
Corporate Core	Grants	Fieldwork ongoing
	TM Barron Charity	Fieldwork commenced
Community Services	Homecare	Fieldwork commenced
	Housing Benefits	Fieldwork ongoing
	Housing Management	Fieldwork commenced
Corporate Services	ICT Environmental Controls	Fieldwork commenced

Summary of the more significant outputs from Consultancy/Corporate Arrangements Work/Contingency Activity undertaken during the first Eleven 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 assistance in the implementation of an on line booking system for the Theatre and Arts. The system is now live and operational.
	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	Investigation 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	Investigation undertaken into an allegation of misuse of Council property. The investigation has been concluded with no further action to be taken.
	Special Investigation	Investigation undertaken into a significant cash discrepancy. Police informed and their investigation remains ongoing.

Department	Description	Output
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 been through the Magistrates Court and heard at the Crown Court. The defendant pleaded guilty to misappropriation of a sum, which will be repaid by the end of April 2008 and in addition received a sentence of community service.
	Special Investigation	Providing assistance with an investigation being undertaken in respect of significant discrepancies identified on a petty cash imprest account. The investigation remains ongoing
	Special Investigation	Providing assistance in respect of an investigation into petty cash discrepancies at a Children's Centre. The investigation remains ongoing.
	Schools Internal Control Statement	Statement and supporting documentation drafted and endorsed by Children's Services Finance for completion and signing by governing bodies of secondary schools covering the financial year ended 31/03/08.
	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 carried out from September 2007 onwards.
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 in the reviews. Refreshed Financial Procedure Rules that incorporate a section upon partnership working approved by Annual Council in May 2007. Revised Contract Procedure Rules approved by Council in February 2008.
	NFI 2006	Initiative completed, all returns made in accordance with the Audit Commission's timescales and final report agreed with the Audit Commission representative. Additional data on Council tax single persons discount/register of electors forwarded to the Audit Commission in October and December 2007. Receipt of output is dependent on further advice from Legal Counsel and agreement between the Commission, the Information Commissioner and other interested parties.

Department	Description	Output
	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	Code reviewed and updated in conjunction with colleagues in HR and Legal Services and presented to the Standards Committee in Sept 2007. Committee comments considered in finalising the code which was approved by Council in Nov 2008. The Code has been circulated to officers and employees following a presentation by the Borough Solicitor at a meeting of the senior manager's network. The Code is also to be rolled out to schools following consultation 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	3/4
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	4/4 3/4 3/4
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	Achieved
7. % of planned pre determined audit assignments completed within the year relative the agreed audit plan	92%	90%
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%