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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 this report covers progress made during the first five months of the year i.e. to 31st August, 2006.
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 31st August, 2006 are shown at Appendix A. The audit work to date upon the core financial systems i.e. the corporate income system and creditors within the Community Services Department, has resulted in substantial assurance opinions. However there were 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, were previously reported quarterly to Corporate Management Team. However the audit committee is now to fulfil this role 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on a number of consultancy projects identified in the original Audit Plan and with recognised flexibility some have been replaced by others at the request of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. Of particular note are the developments to improve the council's corporate governance arrangements:-

- (a) Audit Committee established.
  - (b) 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.
  - (c) Joint work has been carried out with Childrens Services staff upon supporting secondary schools to gain accreditation under the new DFES Financial Management Standard by the required date of 31st March, 2007. Childrens Services' Schools Finance Team are to assist the schools in preparation of their self-assessment and Audit Services staff are to carry out the external assessment required to enable the Director of Corporate Services as Section 151 Officer to certify the FMS assurance statement. This statement is to be returned to the DFES to enable them to issue the schools with a certificate.
8. It is considered appropriate that audit work is planned at secondary schools to complement the assessment under the new Financial Management Standard. The Chief Internal Auditor has had discussions with the responsible Assistant Director in Children's Services to amend the audit assignment element of the Annual Audit Plan to reflect this. The time required will mean that less primary schools than originally programmed will be audited.
  9. Time from the overall consultancy allocation will also be required to contribute to the comprehensive review of how capital projects are managed from inception to delivery and control, instigated under the Leading Edge methodology and sponsored by the Chief Executive, following issues highlighted with the Pedestrian Heart.
  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 2006 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. 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 together with the proposed adjustments to the 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

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AUDIT SERVICES SECTION

SUMMARY OF AUDIT ASSIGNMENTS UNDERTAKEN DURING FIRST FIVE 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		
	Corporate Governance	N/A	Opinion not given as work not standard appraisal. Effort directed to validating evidence to support the progress report on implementation of the local code of corporate governance. (See separate report to this Committee entitled 'Local code of Corporate Governance – implementation progress report')	
	Performance Indicators/Data Quality	N/A	Opinion not given as work not standard appraisal. Effort focused on contributing to a self assessment document compiled with reference to the Data Quality Key Lines	

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
			of Enquiry that was submitted to PwC for evaluation. Initial feedback from PwC on the outcome of their assessment indicates that a positive position was found.	
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 recommendations within 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 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
	Creditors (3 separate reports issued) Leisure Services Housing Admin and Wardens Performance Development and Community Partnerships	Substantial Assurance Substantial Assurance 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.
	Building Control	Substantial Assurance		
Children's Services	E Learning Centre	Substantial Assurance		
	Trusts and Funds	N/A	Accounts audited in accordance with Charity Commission Requirements. A satisfactory position was found.	
Corporate Core	Mayor's Charity Fund	N/A	Accounts audited on an annual basis. A satisfactory position was 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	Review of Equal Pay arrangements	Implementation of new pay structures completed Review of back pay calculations due to commence
	Central Creditors	Fieldwork commenced
	Sales Ledger	Fieldwork commenced
	Council Tax	Fieldwork commenced
Community Services	Vehicles & Plant	Fieldwork commenced
	Housing Benefits	Fieldwork commenced
Development & Environment	Licensing	Field work completed and exit meeting to be arranged

**Summary of the More Significant Outputs From Consultancy Work Undertaken During First Five 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 in October 2006.
	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
	Adult Services Social Fund	Preliminary work to substantiate possible irregularities and mismanagement of the fund. Findings reported to management for potential formal investigation.
	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.
Development and Environment	Special Investigation	Investigation undertaken into cash discrepancies. Recommendations made to improve the security of income, improved reconciliations, 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.
	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.
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.



<b>Department</b>	<b>Description</b>	<b>Output</b>
	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.
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	Contributed to the pilot testing of the draft Partnership Toolkit with colleagues from the Policy Unit and the Darlington Partnership.
	NFI 2006	Initial work carried out with other departmental colleagues in readiness for the Council's participation in this initiative in October 2006. Test creditors data submitted to the Audit Commission in June 2006 who reported this as ' <i>on the whole very good data</i> '.
	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.
	CPA 2006	Contributed to the self assessment overview and detail document submitted to PwC under the CPA Use of Resources 'harder test' methodology for evaluation in the Autumn.
	Statement of Internal Control	Co-ordinated the production of the annual statement of internal control.

## AUDIT SERVICES – KEY PERFORMANCE INDICATORS 2006/07

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 2006
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	Assessment work scheduled for Autumn 2006
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	On target to achieve
6. Maintain ISO 9001 : 2000 Quality Accreditation	Achieve	Inspection visit scheduled for later in the year
7. % of planned pre determined audit assignments completed within the year relative the agreed audit plan	93%	93%
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%