
AUDIT SERVICES ANNUAL AUDIT PLAN 2008/09 – PROGRESS REPORT

SUMMARY REPORT

Purpose of the Report

1. To provide Members with a progress report against the 2008/09 Annual Audit Plan in accordance with Audit Services' role and terms of reference.

Summary

2. The report outlines progress during the first eleven months of the year on audit assignment work, consultancy/contingency activity and performance indicators.
3. Audit assignment work since the last progress report in December 2008 has resulted in substantial opinions and one full assurance opinion with the exception of Licensing, Pupil Referral Unit and one primary school where limited assurance opinions were given. However, management have responded positively to the audit findings in these instances and action plans have been agreed to deliver the required improvements.
4. In terms of consultancy/contingency activity much of the focus has been on special investigation work and with regard to performance indicators the position is positive.

Recommendation

5. It is recommended that the progress report against the 2008/09 Annual Audit Plan be noted.

Reasons

6. The recommendation is supported to provide the Audit Committee with evidence to reflect on the Council's governance arrangements.

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

S17 Crime and Disorder	Other than the special investigation work there is no crime and disorder impact.
Health and Well Being	There is no specific health and well being impact.
Sustainability	There is no specific sustainability impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	There is no specific relevance to the strategy beyond a reflection on the Council's governance arrangements.
Efficiency	There is no specific efficiency impact.

MAIN REPORT

Information and Analysis

7. The Annual Audit Plan for 2008/09 was approved by the Audit Committee in March 2008 (Minute A40/March/08) and this report covers progress made during the first eleven months of the year i.e. to 28 February 2009.
8. 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.
9. 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.
10. The results of audit assignments carried out to 28 February 2009 are shown at Appendix A. Since the last progress report in December 2008, audit work was carried out on the core financial systems of Children's Services and Community Service's Departmental Creditors, Council Tax/NDR and Housing Rents. All resulted in substantial assurance opinions.
11. However, limited assurance opinions resulted from other audit reviews of the Pupil Referral Unit, where issues were identified in respect of governance arrangements, record keeping, income and asset management; a Primary School where issues were identified in respect of controls around asset management, purchasing, income and banking and private school funds; and Licensing where issues were identified in respect of IT system security, enforcement visits and improvements required in procedural documentation. Again management have responded positively to the audit findings and agreed an improvement action plan to deliver the improvements required.
12. In line with good practice, at an appropriate time, Audit Services follow up with Managers progress on implementation of audit 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.
13. 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. This appendix reflects that the focus of much of the audit effort has been on special investigation work.

14. In addition, work has continued to further implement/develop use of the new audit management software, MK Insight, to streamline the audit process.
15. The position is positive upon Key Performance Indicators (Appendix C) with operational targets likely to be achieved and the Council's Internal Control environment overall, as evaluated through the CPA Use of Resources Key Lines of Enquiry, scored at the maximum 4.
16. The Unit has also responded to routine requests from Department's for advice and guidance on operational matters.

Outcome of Consultation

17. There was no formal consultation undertaken in production of this report.

AUDIT SERVICES SECTION

SUMMARY OF AUDIT ASSIGNMENTS UNDERTAKEN FOR THE FIRST 11 MONTHS OF 2008/09

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
Corporate Services	Corporate Income System	Substantial		
	Creditors	Substantial		
	Payroll (residual elements)	Limited	Issues identified in respect of the schedule of persons permitted to authorise payroll transactions (authorised signatories) being significantly out of date. Six monthly establishment checks to verify the accuracy of the personnel on the payroll not undertaken .	Management have responded positively to the audit findings and an action plan has been agreed to facilitate the improvements required.
	Council Tax /NDR	Substantial		
	Corporate Premises Risk and Facilities Management Database	Limited	Issues identified in the methodology adopted in respect of populating the database, including access to the database, management reporting, scope of the database, capacity, and integration.	Management have responded positively to the audit findings and a project team has been created to facilitate and implement the improvements required
	Treasury Management	Substantial		
	Health and Safety Unit	Substantial		
Community Services	Licencing	Limited	Issues identified in respect of IT system security, enforcement visits and improvements required in procedural documentation.	Management have responded positively to the audit findings and an improvement action plan has been agreed.
	Arts Centre	Substantial		

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
	Arts Centre Catering	Substantial		
	Creditors	Substantial		
	Civic Theatre Front of House	Limited	Issues identified in respect of certain stock/income reconciliations not undertaken and around the general quality of financial record keeping.	Management have responded positively to the audit findings and an action plan has been agreed to facilitate the improvements required
	Civic Theatre Box Office	Substantial		
	Learning Disability Day Service	Substantial		
	Independent Sector – Assessment and Payments	Substantial		
	Housing Rents	Substantial		
	School Meals	Substantial		
	Supporting People	Substantial		
Children’s Services	Primary Schools x13	Substantial Assurance & FMSiS pass x11 Full Assurance and FMSiS pass x 1 Limited Assurance and Conditional FMSiS pass x1	Improvements required in respect of controls around asset management, purchasing, income and banking and private school funds.	Management have responded positively to the audit findings and an action plan has been agreed to deliver improvements.

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
	Pupil Referral Unit	Limited	Improvements required in respect of governance arrangements, record keeping, income and asset management.	Management have responded positively to the audit findings and an action plan has been agreed to facilitate the improvements required.
	E Learning - Technical	Substantial		
	Trusts and Funds	N/A	Accounts audited in accordance with Charity Commission guidelines. A satisfactory position was noted.	
	Creditors	Substantial		
Corporate Core	Local Area Agreement	N/A	Opinion not given as work non-standard appraisal. Expenditure for 2007/08 verified in accordance with grant terms and conditions to enable the Director of Corporate Services to certify the grant statement	
	Data Quality/Performance Indicators	N/A	Opinion not given as work non-standard appraisal. Efforts concentrated on assisting with delivery of the Council's Data Quality Strategy implementation plan and following up PwC's 2007 data quality review report in preparation for the 2008 audit that proved positive.	
	Mayors Charity Fund	N/A	Annual audit of accounts completed.	

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
	Corporate Governance	N/A	Opinion not given as work non-standard appraisal. Effort directed to validating evidence quoted in documents/findings on the implementation of the Local Code of Corporate Governance posted on the intranet.	
	TM Barron Charity	N/A	Accounts audited in accordance with Charity Commission requirements. A satisfactory position was found.	

<u>OPINION</u>	<u>DEFINITION</u>
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 ASSIGNMENTS IN PROGRESS

Department	Audit Assignment	Stage of Audit
Community Services	Housing Benefits	Fieldwork ongoing
	Contract Audit – Highways and Engineering	Fieldwork commenced
	Contract Audit – Building and Design	Fieldwork commenced
Chief Executives	Creditors	Fieldwork ongoing
Children’s Services	Fostering Services	Fieldwork ongoing
	Looked after Children	Fieldwork ongoing
	Libraries	Fieldwork ongoing
	1 Primary School	Fieldwork completed
	Capital Programme/Asset management	Fieldwork commenced
	Contract Monitoring / PFI Scheme	Fieldwork commenced
	E Learning Curriculum	Draft Report Stage
Core Corporate	Grants	Fieldwork ongoing
Corporate Services	Bank Reconciliation	Currently scoping

Summary of the More Significant Outputs from Consultancy/Corporate Arrangements

Work/Contingency Activity Undertaken During the first 11 months of 2008/09

Department	Description	Output
Corporate Services	Darlington and Stockton Partnership	Work ongoing with colleagues in Stockton Internal Audit and the respective External Auditors, PwC and the District Audit Service, to further develop and help facilitate the approach to both the internal and external audit of the Partnership.
	Information Governance	Participating in a review assisted by PwC of the governance arrangements in place in respect of personal data held by the Council. A pilot review has been completed in Corporate Services and the approach is to be rolled out across the Council in 2009/10
	Cheques and BACS upgraded systems	Assisting in the implementation of a new desk top cheque production system and in the migration of the BACS transmission functions from Xentrall ICT to the service users with a view to providing a more efficient and streamlined service.
	PCI Standard	Work ongoing in respect of 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
	Call/Contact Centre	Assisted in an examination of options for more streamlined payment services within the call/contact centre.
Community Services	Upgrade of Bankline	Implementation of the web based Bankline system completed.
	Artifax Leisure Facilities Management system	Initial scoping meetings held in respect of the introduction of the Artifax Events Management system
	Care First	Attendance at Project Board meetings on prospective roll-out of system modules

Department	Description	Output
	Special Investigation	Investigation undertaken following an allegation of management malpractice. The investigation has concluded with no further action to be taken
	Special Investigation	Investigation completed in respect of a significant cash discrepancy. At Crown Court, the defendant pleaded guilty to theft and was sentenced to twelve months imprisonment, suspended for two years
	Special Investigation	Providing assistance with an investigation being undertaken in respect of alleged misappropriation of Council stock. The investigation has been concluded with action being taken by management to strengthen appropriate internal control mechanisms.
	Special Investigation	Providing assistance with an investigation being undertaken into an allegation of unauthorised payments being made to an employee. The investigation has been concluded with action being taken by management to strengthen appropriate internal control mechanisms.
	Special Investigation	Providing assistance with an investigation into an alleged misappropriation of income. The investigation remains ongoing.
	Special Investigation	Providing assistance with an investigation into a significant cash discrepancy. The investigation remains ongoing and the matter has also been passed to the police.
Children's Services	Procedural Documentation for Schools	Reviewed and commented upon, as appropriate, draft documentation produced for Primary schools by the Schools Finance Team scheduled for distribution in May 2009
	Contact Point	Attendance at Steering Group established to oversee implementation of the national children's database by the October 2009 deadline
	FMSiS Standard	Providing general advice and guidance on implementation of the Standard and contributing to a regional group on the topic
	Special Investigation	Providing assistance with an investigation into allegations of misuse of Council funds and assets. The investigation has been concluded with no further action to be taken

Department	Description	Output
Chief Executives	European Grant Funding	Certification of initial grant claim in accordance with the appropriate funding requirements
Corporate Core	NFI 2008	Review of fair processing notice requirements carried out in accordance with the new Code of Data Matching Practice (July 2008), relevant application forms and internet updated. Data extracts completed and submitted to the Audit Commission. Results due February/March 2009.
	CPA 2008	Compilation and referencing of evidence base for Internal Control KLOE in preparation for the external Use of Resources Assessment by PwC.
	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 2008.
	Anti-Fraud Arrangements	Efforts focused upon the review of arrangements reported to the December 2008 and March 2009 Audit Committees
	Risk Management	Support provided in the production/review of the corporate and departmental risk registers
	Schools Assurance Statements	Delivered a phased introduction of assurance statements completed by primary schools to support the 2009 Annual Governance Statement
	Training on Corporate Governance Issues	Attendance at various team/management meetings to raise awareness of aspects of the governance framework
	Managers Assurance Statements	Core content updated to reflect responsibilities re- grants, property management and the capital process review

AUDIT SERVICES – KEY PERFORMANCE INDICATORS 2008/09

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).	4/4	4/4
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. 	4/4 4/4 4/4	4/4 4/4 3/4
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	£284 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%	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%