

---

**AUDIT SERVICES' ANNUAL REPORT 2004/05**

---

**Responsible Cabinet Member(s) - Councillor Don Bristow,  
Resource Management Portfolio**

**Responsible Director(s) - Paul Wildsmith, Director of Corporate Services**

---

**Purpose of Report**

1. To provide Cabinet with Audit Services' Annual Report for 2004/05 in accordance with Audit Services' role and terms of reference.

**Information and Analysis**

2. The Annual Audit Plan for 2004/05 was approved by Cabinet in March 2004 (Minute No. C228/Mar/04) and Audit Services' Annual Report against this plan is attached at **Appendix A**.
3. The Annual 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. The report details the internal audit service provided; operational performance achieved; audit assignment, consultancy work and contingency activity undertaken; outcomes against key performance indicator targets; and looks forward to the next financial year.
5. The outcomes from the audit assignments undertaken, together with the positive responses from management to accept and implement required improvements to control systems, complemented by consultancy work carried out to advise and assist management to establish appropriate controls at source, demonstrate that the Council continues to operate within a control environment that is generally sound.
6. In addition, the Council has made further progress during the year upon corporate governance issues with acknowledgement through various external inspection processes that risk management is well embedded within the Council, integrated with service planning and considered a strength and also development of a specific area on the intranet for the Local Code of Corporate Governance with hyperlinks to relevant documents/reports.
7. This positive position will be reflected in a published statement upon the Council's system of internal control which will accompany the Statement of Accounts for 2004/05.

8. In terms of the performance of Audit Services, the position is again extremely positive with all targets and objectives for the year met covering service standard, customer and service quality and staffing. The Section again obtained the maximum score of 4 from External Audit using the Audit Commission's methodology set out in 'Comprehensive Performance Assessment Indicators : Auditor's Judgements'.

### **Outcome of Consultation**

9. No formal consultation was undertaken in production of this report.

### **Legal Implications**

10. 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**

11. 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.

### **Council Policy Framework**

12. The issues contained within this report do not represent change to Council policy or the Council's policy framework

### **Decision Deadline**

13. For the purpose of the 'call-in' procedure this does not represent an urgent matter

### **Conclusion**

14. The Council continues to operate within a control environment that is generally sound.

### **Recommendation**

15. It is recommended that Audit Services' Annual report for 2004/05 be noted.

### **Reasons**

16. The recommendation is supported as it comprises part of the Council's corporate governance arrangements.

**Paul Wildsmith**  
**Director of Corporate Services**

## **Background Papers**

- (i) Audit Services' Role and Terms of Reference
- (ii) Audit Assignment Synopsis Sheets

Brian James : Extension 2140  
SG

**AUDIT SERVICES  
ANNUAL REPORT  
2004/05**

---

## Contents List

---

1. Introduction
2. Service Provided
3. Operational Performance
4. Review of Audit Assignment Work
5. Review of Outputs from Consultancy Work/Contingency Activity
6. Statement of Internal Control
7. Performance Indicators
8. The Future

### Appendices

Appendix 1 - Summary of Audit Assignments Undertaken During 2004/05

Appendix 2 - Summary of the More Significant Outputs from Consultancy Work/Contingency Activity Undertaken During 2004/05

Appendix 3 - Audit Services - Key Performance Indicators

---

## **1. Introduction**

---

- 1.1 Audit Services comprises an establishment of seven and operates in accordance with professional standards.
- 1.2 The aim of the Section is to provide an independent and objective service that wherever possible adds value to the business of clients by being responsive to their needs, constructive in approach, appraisal and recommendations, whilst satisfying statutory responsibilities.
- 1.3 All performance targets and objectives set for the year upon service standards, staffing and customer/service quality were met and this solid base of internal audit service delivery is a major benefit to the Council with the increased importance of the corporate governance agenda, not least in terms of the Comprehensive Performance Assessment (CPA).
- 1.4 The remainder of this report chronicles in more detail operational performance during the year.

---

## **2. Service Provided**

---

- 2.1 The requirement for an internal audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which requires that authorities “make arrangements for the proper administration of their financial affairs and shall ensure that one of their officers has responsibility for the administration of those affairs”. The Accounts and Audit Regulations 2003 specifically require that a “relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices”. The Director of Corporate Services has been delegated with this requirement by the Council and the Audit Services Section carry out the internal audit role.
- 2.2 Although internal audit has a statutory basis and therefore, has a major corporate inspection and monitoring role, it is operated as a service to management and provides assurance and consultancy upon all aspects of management and administration. Audit Services has limited resources and consequently its workforce is deployed in accordance with an audit strategy having regard to relative risks and levels of assurance required, translated into an agreed annual plan.
- 2.3 Service level agreements are in place across the client base which include details upon audit assignments, consultancy tasks, charges, working protocols, response times and client responsibilities.

### 3. Operational Performance

3.2 A summary of the year in person days is outlined in the following table, which analyses chargeable time, by category, as well as non chargeable and non productive time.

Summary of 2004/05 Year In Person Days				
	Annual Plan	Actual Allocation	Variance	
			+	-
Chargeable Time				
• Audit Assignments	581	546		35
• Advice and Consultancy	484	421		63
• Financial Appraisals	30	18		12
• Contingency Allocation	130	225	95	
SUB TOTAL	1225	1210	95	110
Non Chargeable Time				
• Training, ISO Administration, Supervision and Management etc.	110	112	2	
Non Productive Time				
• Annual Leave, Bank Holidays, Sickness etc.	449	462	13	
TOTAL	1784	1784	110	110

3.2 Actual chargeable time in total during the year was some 99% of that planned. This slight shortfall resulted from greater maternity/paternity leave than estimated which also explains the marginal increase in non-productive time.

3.3 Although chargeable time was in line with that planned there were significant variations between categories. Increased contingency work was undertaken on a range of issues and as a result there was, of necessity, a corresponding decrease in time spent upon audit assignments and more especially consultancy work which was agreed with Directors.

3.4 Financial appraisal work upon potential contractors was less than anticipated but this is essentially a demand led service that is difficult to accurately predict.

---

#### 4. Review of Audit Assignment Work

---

- 4.1 Planned audit assignments for the year totalled 54 of which 50 were completed i.e. 93%. These audits spanned all Departments of the Council and details of the assignments undertaken, together with the audit opinion and relevant commentary where the opinion was less than satisfactory, is shown at **Appendix 1**.
- 4.2 Two such areas related to core financial systems i.e. Council Tax and the IT operating system of the Financial Management System. In the case of Council Tax, work has commenced upon the action plan to deliver improvements to the systems operated on discounts and exemptions and to review resources applied to the recovery process following a fall in performance. As regards the IT operating system of the Financial Management System, improvements necessary in the security of the Unix system have been implemented.
- 4.3 Other instances were more establishment - related or service based and in all cases management have responded positively to the audit reviews. The Assistant Director - Leisure and Arts either has taken or has planned action to resolve audit issues raised with financial administration in the catering operation at the Dolphin Centre and Stressholme Golf Club; comprehensive documentation has been produced to underpin service delivery in Leaving Care and the Alternative Centre for Education; and the Head Teacher and Governors at a secondary school have taken action to resolve the audit issues raised.
- 4.4 As regards audit assignments in general, in line with good practice, at an appropriate time Audit Services follow up with Managers progress upon the implementation of recommendations agreed in audit reports. As part of this follow up process, any significant recommendations remaining outstanding are reported quarterly to the Corporate Management Team. It is pleasing to report no matters of concern on this point.
- 4.5 The overall outcomes from the audit assignments undertaken, together with the positive responses from management to accept and implement required improvements to internal control systems, demonstrate that the Council continues to operate within a control environment that is generally sound.

---

## 5. Review of Outputs from Consultancy Work/Contingency Activity

---

- 5.1 The Section worked upon a number of consultancy projects identified in the original Audit Plan but with recognised flexibility some were replaced by others at the request of Directors or given up to contingency activity with their agreement. A summary of the more significant outputs from consultancy work/contingency activity is given at **Appendix 2**.
- 5.2 The work undertaken was wide-ranging and included corporate governance matters, systems development work, service delivery enhancements and carrying out investigations into irregularities.
- 5.3 Particularly noteworthy was progress made upon corporate governance issues. There has been acknowledgement through various external inspection processes that risk management is well embedded within the Council, integrated with service planning and considered a strength; work carried out to draft and obtain approval for policies upon Freedom of Information and Records Management, as well as to address training/publicity requirements, helped enable the Council to comply with its legal duties under the Freedom of Information Act 2000; and a specific area has been developed on the intranet for corporate governance which includes hyperlinks to relevant documents/reports. Moreover, information was provided to support the Council's position upon the corporate governance aspects of the CPA process which contributed to the improved results obtained.
- 5.4 Systems development work comprised advice and project management in respect of the introduction of purchasing cards across the Authority in accordance with the Council's Procurement Strategy, with a view to streamlining the procurement process and advice and guidance provided upon data migration, security and training issues with regard to the implementation of the Care First system in Social Services.
- 5.5 Service delivery enhancements included support in the development of an on-line internet booking facility for the Theatre/Arts and Leisure; introduction of an income collection service for schools by a cash in transit company to improve security and free up staff resources; and assistance provided to implement the initiative to rationalise consultancy support within the Development and Environment Department into a framework partnership agreement in order to facilitate delivery of the Council's works programmes.
- 5.6 There were a number of investigations carried out during the year into irregularities which were identified largely through internal control procedures and appropriate action was taken by management on findings.
- 5.7 In addition to the outputs stated in **Appendix 2**, the Section has responded to numerous requests from Departments, including schools, for advice and assistance upon all aspects of the Council's procurement process.
- 5.8 Generally, the aim of the consultancy work is to complement the audit review process by advising and assisting management to implement, at source, appropriate internal controls within systems. This approach is seen as an effective way to help underpin the sound nature of the Council's control environment.

---

## **6. Statement of Internal Control**

---

- 6.1 In accordance with statutory requirements the Council must publish a statement on its system of internal financial control alongside the Statement of Accounts for 2004/05.
- 6.2 The statement will be positive since, as a result of the range of audit work undertaken, it is concluded that overall the Council continues to operate within a control environment that is generally sound. Indeed, this environment has been enhanced as risk management is now embedded into the Council's planning process.

---

## 7. Performance Indicators

---

- 7.1 A summary of outcomes against targets and objectives for the year covering service standard, customer and service quality and staffing is included at **Appendix 3**. The position shown is extremely positive with all targets and objectives met.
- 7.2 The Appendix also details targets and objectives set for the following year. These have been rationalised to reflect the contribution that Internal Audit makes to the revised/strengthened key lines of enquiry (KLOE) which comprise an integral part of the amended Use of Resources block, that has a much greater overall significance in the new CPA 2005 methodology.
- 7.3 Audit Services maintained accreditation under the ISO 9001:2000 Quality Standard for all aspects of business following external scrutiny by the accreditation body. The system itself reflects Audit Services' proactive approach to involving clients in the audit process with the belief that by working in partnership the more both parties will benefit. Indeed, the results from client satisfaction surveys undertaken following each audit assignment remain impressive and demonstrate the high regard clients have for the service provided.
- 7.4 The Section continued to work closely with External Audit within a joint protocol designed to ensure co-operation and to minimise overlap on audit coverage. A maximum score of 4 was obtained by Audit Services from External Audit during the year, using the Audit Commission's methodology set out in 'CPA Indicators – Auditors' Judgements' and the score for risk identification and management, measured under the same system, increased from 2 to 3.
- 7.5 Productive days per auditor were top quartile as measured by the CIPFA Benchmarking Statistics for Unitary Authorities and costs per audit day were well within the second bottom quartile.
- 7.6 Identified aims for the Service for 2004/05, as outlined in the 2003/04 Annual Report, have been met with regard to delivery against set targets and objectives and implementation of the skills transfer arrangement with Pricewaterhouse Coopers on computer audit. Initial work has also commenced upon development of departmental corporate governance statements to underpin the Council's annual Statement of Internal Control and upon a review of the Council Financial Procedure Rules, including anti-fraud and corruption arrangements. However, it will be 2005/06 until this work is finalised.

---

## **8. The Future**

---

8.1 The aims of Audit Services for the year ahead are to :-

- Deliver against set service targets and objectives which incorporate the more stringent key lines of enquiry requirements of the revised CPA 2005 methodology.
- Finalise work upon :-
  - development of Departmental Corporate Governance Statements to underpin the Council's annual Statement of Internal Control; and
  - the review of the Council's Financial Procedure Rules, including anti-fraud and corruption arrangements.

**SUMMARY OF AUDIT ASSIGNMENTS UNDERTAKEN DURING 2004/05**

Department	Audit Assignment	Audit Opinion	Where Audit Opinion Less Than Satisfactory	
			Audit Comment	Management Response
Corporate Services	Central Payroll Function Construction Industry Scheme Sundry Debtors Central Creditor Function Departmental Creditors Council Tax  IT Operating System of the Financial Management System Income Collection & Reconciliation Bank Reconciliation	Good Satisfactory  Satisfactory Satisfactory Satisfactory Falls Short of Satisfactory  Falls Short of Satisfactory  Good Satisfactory	A number of fundamental weaknesses identified within the system particularly in regard to discounts and exemptions. In addition, resourcing issues within the recovery team had resulted in a backlog of work and a drop in recovery performance. Weaknesses identified in the administration of the Unix operating system.	Management have responded positively to the audit report and an action plan has been agreed to implement the improvements necessary within agreed timescales.  All recommendations have been implemented.
Community Services	Horticultural Services Payroll Departmental Creditors Housing Rents Sponsorship Housing Benefits	Good Good Satisfactory Satisfactory Satisfactory Satisfactory		

Department	Audit Assignment	Audit Opinion	Where Audit Opinion Less Than Satisfactory	
			Audit Comment	Management Response
	Dolphin Centre Catering	Falls Short of Satisfactory	Discrepancies on the bar coupled with discrepancies with the float, security issues around the catering safe and problems experienced in the reconciliation of income in respect of the trolley and van services.	Management have implemented the improvements recommended within agreed timescales. This includes the introduction of new EPOS cash registers, which are able to provide improved management information for financial control purposes.
	Stressholme Catering	Falls Short of Satisfactory	Issues identified with the financial administration of the facility including the level of bar discrepancies, overs and shorts and unaccounted income.	Management have responded positively to the issues raised. New management arrangements now in place and more robust procedures and management monitoring of performance introduced to improve accountability.

**APPENDIX 1**

Department	Audit Assignment	Audit Opinion	Where Audit Opinion Less Than Satisfactory	
			Audit Comment	Management Response
Development and Environment	Cemeteries and Crematorium Tourism/Heritage/Town Centre Trading Standards Waste Disposal and Recycling Departmental Creditors	Good Satisfactory Satisfactory Satisfactory		
Education	Primary Schools x10  Comprehensive Schools x3  Eastbourne/Hurworth Federation Nurseries x2  Payroll Trusts and Funds Education Other than Schools and McMullen House	Very Good - 1 Good - 2 Satisfactory - 7  Satisfactory - 2 Falls Short of Satisfactory -1  Satisfactory Good - 1 Satisfactory - 1 Satisfactory Satisfactory Falls Short of Satisfactory	Lack of evidenced supervisory checks and management controls over elements of the school's financial operation. Previous audit recommendations not implemented in full.  Documentation of comprehensive procedures to underpin Alternative Centre for Education service delivery required. Structure and content of record keeping to be reviewed and standardised. Robust systems for meals income and monitoring of	The Head Teacher, Chair of Governors and Finance Committee Chair accepted the recommended improvements and the Head Teacher has confirmed through the quarterly monitoring arrangements that all high-ranking recommendations have been implemented to agreed timescales.  The Client Manager has confirmed positive progress upon implementation of the agreed high-ranking recommendations.

Department	Audit Assignment	Audit Opinion	Where Audit Opinion Less Than Satisfactory	
			Audit Comment	Management Response
			attendance/admission to be satisfactory established	
	Student Support Departmental Creditors	Satisfactory Satisfactory		
Social Services	Payroll Direct Payments – Payments Function Departmental Creditors  Leaving Care   Appointee/Receivership Accounts – Client Bank Account Administration	Satisfactory Satisfactory  Satisfactory Falls Short of Satisfactory   Opinion not given as work not standard appraisal. Effort focused on advising upon revised systems and procedures to facilitate streamlining of workload and record keeping.	Documentation required on operational procedures, to include relationship with other parts of the Department and other relevant parties, and payment processes need to be strengthened. LCT was a new service, which had only been fully operational since November 2003. It was brought in-house from an external provider who failed to deliver a satisfactory service.	Management have confirmed that all recommended improvements have been implemented.
Corporate Core	Performance Indicators	Opinion not given as work not standard appraisal. Effort focused upon verifying robustness of BVPI information for CPA purposes. Positive position found.		

Department	Audit Assignment	Audit Opinion	Where Audit Opinion Less Than Satisfactory	
			Audit Comment	Management Response
	Corporate Governance	Opinion not given as work not standard appraisal. Effort directed to validating evidence quoted in progress reports to Resources Scrutiny on implementation of the Local Code of Corporate Governance. Positive position was found.		

**Summary of the More Significant Outputs From Consultancy Work/Contingency Activity Undertaken During 2004/05**

Department	Description	Output
Corporate Services	Comprehensive Performance Assessment (CPA) – Auditor Judgements	Information supplied in support of the Council’s current position on relevant aspects of the CPA as regards matters covered by the External Auditors Code of Audit Practice. This contributed to the positive and improved results obtained.
	Banking	Advice and support with regard to development and management of all aspects of corporate banking including the Girobank service and credit/debit card processing. Commencement of the exercise to retender for the Girobank service in early 05/06.
	Purchasing Cards	Advice and project management in respect of the introduction of purchasing cards across the Authority, in accordance with the Council’s Procurement Strategy, with a view to streamlining the procurement process.
Community Services	Theatre/Arts and Leisure Booking Systems	Continued support in the development of the systems including the control aspects of the proposed implementation of on-line internet booking.
	Supporting People	Advice and guidance in respect of control aspects of the system including the payment processes prior to the Supporting People Inspection by the Audit Commission.
Development and Environment	Consultancy Support	Assistance provided to implement the initiative to rationalise consultancy support into a framework partnership agreement in order to facilitate delivery of the Council’s works programmes.
	Landfill Allowances	At the request of the Environment and Sustainability Manager, audit carried out work to confirm an additional landfill tonnage figure notified to the Department for Environment Food and Rural Affairs (DEFRA) for inclusion in their calculation of the Council’s final allocation of landfill allowances.
Education	Revised Schools Audit Approach	Review of the audit approach to schools in conjunction with colleagues in the Corporate Services and Education Departments. Scope to be widened to include a broader coverage of generic risks. It is envisaged that the new approach will be piloted in schools during 2005/06.

**APPENDIX 2**

<b>Department</b>	<b>Description</b>	<b>Output</b>
Education	Banking Arrangements - Schools	A pilot trial of schools having their income collected by cash-in transit companies, as opposed to physically banking themselves, was successfully concluded. As a result, this facility was offered to all schools with a view to providing improved security and freeing up valuable staff resources. The service was taken up by all the schools with in house catering and is fully operational.
	Private Schools Funds	Assistance provided to the appointed Investigating Officer, initially in the investigation of potential financial irregularities in the operation of a school's fund and subsequently with the preparation of a statement of case for a disciplinary hearing.
	Specialist School Funds	Annual audit of specialist school fund completed in preparation for grant submission.
	Trusts & Funds Procedures	Production of formal documentation of procedures, including eligibility criteria, application and approval processes, in conjunction with Education staff and the Board of Trustees to bring greater clarity to the system.
	Education Village	Advice and assistance given in conjunction with other colleagues from Corporate Services and Education upon matters effecting Education Village implementation e.g. asset management disposal.
Social Services	Administration of client Finances	Review of systems and procedures for the control over administration of client finances. New software is to be introduced in 2005/06 to streamline the process and Audit Services are to advise on implementation.
	Learning Disability Service	Assistance provided with the establishment of systems and procedures for client based work projects at Mayflower Court and the Railway Museum.
	Care First	Advice and guidance provided upon data migration, security and training issues together with advice upon the implementation of specific modules.

## APPENDIX 2

Department	Description	Output
Social Services	Homecare Software	Advice given upon control issues during the pilot of the system. Decision subsequently taken by the Department not to progress with this system due to concerns upon financial standing of the company following restructuring.
Corporate Care	Risk Management	The Chief Internal Auditor is the Council's designated risk management co-ordinator and he worked with departments as they evaluated the risks identified. This role was vital to ensure that a consistent approach was followed. Through the commitment and effort of all concerned risk management, within the Council, is now well embedded and integrated with service planning which was recognised as a strength in the CPA inspection process.
	Information Governance	Support provided to enable the Council to comply with its legal duties under the Freedom of Information Act 2000, following transfer of responsibility for the information governance function to the Chief Internal Auditor during the year. Work involved included the drafting of relevant documents, subsequently approved by the Council, i.e. Freedom of Information and Records Management Policies, as well as addressing training/publicity requirements.
	Corporate Governance Issues	Initial work carried out upon development of departmental corporate governance statements to underpin the Council's annual Statement of Internal Control and upon updating the Council's arrangements for the prevention and detection of fraud and corruption.
	National Fraud Initiative (NFI) 2004	Output on potential matches received in CD format from the Audit Commission, and disseminated to designated departmental representatives for preliminary investigation. Ongoing liaison with these departmental representatives upon investigation protocols and progress to ensure timescales for the reporting of outcomes to the Audit Commission are met.
	Delegated Powers	Electronic system developed and implemented on the intranet to record and report the relevant delegated decisions as indicated in the constitution.

**APPENDIX 2**

<b>Department</b>	<b>Description</b>	<b>Output</b>
	CRM System	Represented upon the project team involved in the procurement process of a suitable system.
	Mayor's Charity Fund	Annual audit of accounts completed.

## AUDIT SERVICES - KEY PERFORMANCE INDICATORS

		2004/05		2005/06
		Target	Outcome	Target
1.	An adequate Internal Audit function is maintained as evaluated through CPA auditor scored judgement.	4/4	4/4	Now incorporated within 7 below
2.	Days per auditor as per CIPFA Benchmarking Statistics for Unitary Authorities.	183 Top Quartile	194 Top Quartile	183 Top Quartile
3.	Cost per audit day as per CIPFA Benchmarking Statistics for Unitary Authorities.	£248 Second Bottom Quartile	£224 Second Bottom Quartile	£243 Second Bottom Quartile
4.	Customer satisfaction rating received from client surveys following the completion of each audit assignment (where 1 = very poor to 5 = very good)	Average 4	Average 4.1	Average 4
5.	Maintain ISO 9001:2000 Quality Accreditation	Achieve	Achieved	Achieve
6.	Risk Management arrangements as evaluated through CPA auditor scored judgements	3/4	3/4	3/4
7.	Effectiveness of the Council's Internal Controls, including those in relationship to partnerships, as evaluated through CPA auditors scored judgements	New		3/4
8.	Anti-Fraud and Corruption arrangements as evaluated through CPA auditor scored judgements	New		3/4