

CITY OF DURHAM**AUDIT OVERVIEW COMMITTEE****28th MARCH 2007****REPORT OF DIRECTOR OF STRATEGIC RESOURCES****1. PROGRESS REPORT FOR THE PERIOD 1ST APRIL 2006 TO 28TH FEBRUARY 2007****1.1 Introduction**

This report will compare the actual work undertaken by Internal Audit with that planned for the period 1st April 2006 to 28th February 2007.

1.2 Progress Report

1.2.1 In the period 1st April 2006 to 28th February 2007, the following work was undertaken and compares to the plan as shown below:

Annual Plan Audit Days		Cumulative Planned Audit Days	Cumulative Actual Audit Days	Variance Audit Days
446.00	Non productive time	412.83	493.10	80.27
223.00	Management & Administration non chargeable	204.42	193.90	(10.52)
91.00	Management & Administration chargeable	83.42	66.94	(16.48)
580.00	2006/2007 Audit Plan	532.00	387.55	(144.45)
40.00	Follow Up work	40.00	20.82	(19.18)
180.00	Contingencies & Special Investigations	165.00	172.50	7.5
1560.00	Total	1485.67	1334.81	(150.86)

A more detailed analysis is given in Appendix 'A'.

1.2.2 The original 2006/2007 Audit Plan is comprised of 63 specific audit assignments. At the 28th February 2007, 36 assignments (57%) had been completed of which 2 were at the draft stage. Of the 11 assignments covering the Council's critical business systems, 6 out of 11 (55%) have been completed. Work is already well in progress on a further 4, with the remaining one due to commence in early March. It is anticipated that all business critical systems will be completed before the end of March 2007. It is also anticipated that a total of 47 (75%) audits will be completed by the end of the year this is a slight increase of 2 on 2005/06 although the percentage of audits completed will rise from 55% to 75%.

1.2.3 Staff vacancies and the long term sickness of the assistant auditor have had a direct effect on the ability of the service to complete the original audit plan, however I am pleased to report that the assistant auditor has now returned to work full time, and the new auditor (post number SR6) commenced work on the 19th February 2007.

1.2.4 In total 81.15 days have been spent completing a number of audits relating to the 2005 / 2006 audit plan. This has been met from the contingency provision. Whilst it is inevitable that some audit assignments will not be fully completed by the end of March, I am confident that the level of carry over for 2006/07 will be significantly reduced.

1.2.5 Projects carried out during the year which were not included in the original audit plan and which have not been previously reported are detailed below. All of this work has been met from the contingency provision.

- ◆ Durham Business School (0.34 days)
- ◆ Chief Financial Officers meeting (0.27 days)
- ◆ Self Service module (0.14 days)
- ◆ Accounts and audit regulations (0.54 days)

1.2.6 The following local performance indicators for the period 1st April 2006 to the 28th February 2007 are shown below:-

i) Number of audits undertaken and completed	36 (2 at draft stage)
ii) Number of recommendations made	147
iii) Number of recommendations agreed	147 (100%)
iv) Number of recommendations not agreed	0
v) Number of recommendations partly agreed	0
vi) Number of draft reports issued within 10 working days of closure meeting	35.75%
vii) Final report and recommendation action plan issued within 5 working days of the post audit meeting	70%
viii) Number of recommendation action plans signed off and returned within 5 working days of issue	36%
ix) Number of recommendations implemented since 1/04/06 (Some relate to audits carried out in previous years)	116
x) Number of Post audit questionnaires completed and returned	82%
xi) Post audit meeting held within 10 working days of the issue of the draft report	74%

1.2.7 There are no recommendations partly agreed

- 1.2.8 There are no recommendations not agreed
- 1.2.9 Audits completed in 2006/07 (excluding items already reported) are considered in private (see attached)

1.3 2007/2008 Annual Audit Plan

- 1.3.1 The Internal Audit service at City of Durham strives to achieve continuous improvement and achieve current best practice. Following on from the 2006/2007 audit plan intentions to move towards a continuous planning, risk based strategy and audit plan over the next few years, all of the necessary requirements are now in place to achieve this in 2007/2008 a year ahead of schedule.
- 1.3.2 The Head of Internal Audit has now formulated an annual risk based Audit Strategy to meet current requirements and introduced a more robust audit risk matrix in developing the 2007/08 audit plan.
- 1.3.3 Details of the plan have been circulated for consultation in accordance with the Audit Charter and best practice. A copy of the plan is attached at Appendix B and copies of the draft plan have been circulated to all relevant senior managers for comment. All comments and feedback have been taken into account when compiling this years final plan. A copy of the final plan has also been provided to the Audit Commission.
- 1.3.4 The Internal Audit staffing structure is shown below: -
 - ◆ Head of Internal Audit
 - ◆ Principal Auditor (with responsibility for IT)
 - ◆ Principal Auditor (with responsibility for VFM)
 - ◆ Auditor
 - ◆ Auditor
 - ◆ Audit Assistant
- 1.3.6 The plan is based on the availability of 620 audit days, of which 40 audit days have been set aside for follow up work. This leaves a total of 580 audit days, the same as for 2006/07. The number of audits to be carried out, total 52
- 1.3.7 The plan will be split into quarters and work will be distributed as far as possible on this basis.
- 1.3.8 A contingency provision of 130 audit days has been set. This will cover any special investigation work and additional work required by services not included in the plan. A further contingency of 25 days has been set to cover any vacancies that may arise during the year. The audit plan is made up of a number of different components
 - a) Areas where the Audit Commission require assurance (this will include main financial systems and business critical systems agreed with the audit commission at the audit planning stage each year)
 - b) An agreed program of IT audit over a three year rolling programme.

- c) Ad hoc value for money work requested by services
- d) Assurance work required on an annual basis in respect of risk management, corporate governance and statement on internal control.
- e) Grant certification work and annual review of key performance indicators.
- f) Ad hoc requests from services in respect of areas of concern
- g) System review work prioritised according to risk

The main audit plan for the year is made up from areas (a) to (f) above, this provides an element of flexibility to the plan where any spare capacity from actual audit days not used together with unused contingency provisions can be utilised in two ways:-

- ◆ A specific urgent request from Heads of Service for specific system review work at any time.
- ◆ System review work from the reserve list prioritised according to risk.

1.4 The Audit Process

1.4.1 The audit process will largely remain unchanged, although there are minor changes as follows:-

- a) Control Risk Self Assessment forms. These will be populated by the lead auditor and sent out with the audit scope and brief for discussion at the pre audit meeting. Due to the generic nature of many of the risks taken from Service Business Plans and the operational risk registers, agreement and clarification of the risks to be included may be sought from the Head of Service before these are distributed.
- b) Key Controls. For systems that have already been subject to audit lists of key controls are available on public folders and the relevant list will be discussed at the pre audit meeting. For systems that have not yet been subject to audit key controls will be formulated through discussions at the pre audit meeting and added to the list on public folders once agreed.
- c) At the conclusion of the audit the lead auditor will include in his report whether in his opinion the service is meeting its stated objectives (from business plans).
- d) The lead auditor will continue to emphasise the positive aspects of the review as well as the negative in a balanced report and will also take account of the culture of Business Units and Teams, available resources and possible constraints when making recommendations.
- e) Heads of Service to be sent a copy of the audit notification together with a list of key controls.

1.4.2 All other aspects of the audit process remain unchanged including the follow up and escalation procedures. There is no change to the audit opinion score.

1.4.3 The return of post audit questionnaires will continue be compulsory, and I must thank managers for their quick response in returning these to me over the last year. I would welcome a similar response to the completion and return of the recommendation action plans in the future. Local performance indicators will continue to include the following:

- i) Draft report to be issued within 10 working days from the closure meeting of the audit.
 - ii) Post audit meeting to be held within 10 working days of the issue of the draft report
 - iii) Final report and recommendation action plan, to be issued within 5 working days of the agreement of the draft report and recommendation action plan at the post audit meeting
 - iv) Recommendation action plan to be signed off by lead officer and returned to Internal Audit within 10 working days of issue.
 - v) Return of post audit questionnaires.
- 1.4.4 The time taken for the recommendation action plan to be signed off by lead officers and returned to Internal Audit has been increased from 5 to 10 days, however, Internal Audit will strive to have the recommendation action plan signed off by lead officers at the end of the post audit meeting where all recommendations have been agreed.
- 1.4.5 Please note that there are occasions where additional work may be required by the Service after the closure meeting, or post audit meeting which may delay the production of a report or affect the timescales set out in the local performance indicators above. The Head of Internal Audit will seek to make fair adjustment to those indicators affected to take account of this.
- 1.4.6 Following recent changes to the audit code of practice, the introduction of the Fraud Act 2006 and the recent guidelines on the Accounts and Audit Regulations 2006 it will be necessary for the Head of Internal Audit to review the following documents in 2007/08
- ◆ The Audit Strategy
 - ◆ The Audit Charter
 - ◆ Fraud and Corruption Policy
 - ◆ Fraud Response Plan
 - ◆ The Audit Protocol
 - ◆ The Audit manual
- 1.4.7 Audit awareness training was carried out for a number of Services in 2005/06. and in 2006/07. This training will be available once again in 2007/08 for new employees and those officers and members who wish to take advantage of this training. The Head of Internal Audit will contact Heads of Service to discuss their requirements.
- 1.4.8 Good working relationships with departments is important to Internal Audit. Managers have a number of ways in which they can communicate their opinions on the internal audit service.
- ◆ Post audit questionnaire
 - ◆ Consultation process for the audit plan
 - ◆ Annual audit survey
 - ◆ In person to the Head of Internal Audit.
 - ◆ Annual review of Internal Audit

Managers are actively encouraged to provide feedback on any part of the audit process. Without this feedback it is difficult for Internal Audit to provide continuous improvement to its quality service.

- 1.4.9 Heads of Service are asked to provide the Head of Internal Audit with the names of lead officers for areas under their responsibility before the start of the new financial year.

1.4 Benchmarking

1.5.1 A recent voluntary benchmarking exercise was carried out to compare the internal audit service with other districts in the region using 2005/06 data.

1.5.2 A copy of the result of the benchmarking exercise is attached at Appendix C

1.5.3 The benchmarking exercise revealed that :

- ◆ The total cost per FTE compared favourably with the other districts with the second lowest cost out of six.
- ◆ Durham spends more time on auditing main financial systems than any of the other districts
- ◆ The number of chargeable audit days in total was the greatest
- ◆ Durham City's sickness record was far worse than any other
- ◆ Non chargeable management time was the highest among the districts
- ◆ Durham has the highest number of staff
- ◆ Qualifications of internal audit staff at Durham compared favourably with other districts

1.5.4 Overall the performance of City of Durham's Internal Audit section compares favourably with all of the other districts

1.6 Code of Practice for Internal Audit in Local Government

1.6.1 A briefing note on the main changes arising from the new Code of Practice for Internal Audit in Local Government is attached at Appendix D for information.

RECOMMENDATIONS

- i) The Audit Overview Committee is asked to note the contents of this report.
- ii) The Audit Overview Committee is asked to approve the audit plan for 2007/08.

Audit number	Audit item	Target Days	YTD Plan	YTD Actual	YTD Variance	Complete
07/01	Financial management system	10.00	10.00	11.12	1.12	Y
07/02	High level action plan	5.00	5.00	0.14	-4.86	Deleted
07/03	Housing benefits - quarterly check Q1	6.00	6.00	6.89	0.89	Y
07/04	NNDR - liability incl voids & refunds, valuation, collection	10.00	10.00	10.72	0.72	Y
07/05	One stop shops/customer services	10.00	10.00	25.20	15.20	Draft
07/06	Performance indicators	10.00	10.00	14.96	4.96	Y
07/07	Performance planning and review	10.00	10.00	7.03	-2.97	Y
07/08	Priority Outcomes	10.00	10.00	10.10	0.10	Y
07/09	Statement of Internal control	10.00	10.00	6.79	-3.21	Y
07/10	Durham Sport	10.00	10.00	5.03	-4.97	Y
07/11	Leasing	7.00	7.00	11.36	4.36	Y
07/12	Gala - Healthcheck	15.00	15.00	15.54	0.54	Y
07/13	Tourism strategy	7.00	7.00	5.57	-1.43	Y
07/14	Stores (VFM)	10.00	10.00	0.54	-9.46	Deleted
07/15	IT Strategy	10.00	10.00	4.33	-5.67	Y
	Total Quarter 1	140.00	140.00	135.32	-4.68	

Audit number	Audit item	Target Days	YTD Plan	YTD Actual	YTD Variance	Complete
07/16	Council tax - liability incl voids, discounts, exemptions etc	10.00	10.00	12.74	2.74	Y
07/17	Council Tax refunds	5.00	5.00	6.42	1.42	Y
07/18	Housing benefits - quarterly check Q2	6.00	6.00	5.88	-0.12	Y
07/19	Housing benefits verification procedures	10.00	10.00	10.07	0.07	Y
07/20	Housing rents - liability incl voids & refunds	10.00	10.00	11.45	1.45	Y
07/21	Payroll	10.00	10.00	14.83	4.83	Closure
07/42	Sports Centres	15.00	15.00	12.94	-2.06	Y
07/23	Flexitime	10.00	10.00	9.76	-0.24	Y
07/24	Housing Lettings	15.00	15.00	15.17	0.17	Y
07/25	RIPA	5.00	5.00	5.14	0.14	Y
07/26	Stage school	10.00	10.00	10.98	0.98	Y
07/27	BACS / Chaps	7.00	7.00	7.16	0.16	Y
07/35	Housing benefits - performance standards	10.00	10.00	0.00	-10.00	withdrawn
07/29	Register of Electors	7.00	7.00	7.03	0.03	Y
07/30	Void management incl repairs element	10.00	10.00	10.20	0.20	Y
07/31	File Controls	10.00	10.00	9.33	-0.67	Y
	Total Quarter 2	150.00	150.00	149.10	-0.90	

Audit number	Audit item	Target Days	YTD Plan	YTD Actual	YTD Variance	Complete
07/32	Accountancy Estimates	10.00	10.00	1.73	-8.27	WIP
07/33	Cash collection	10.00	10.00	1.12	-8.88	WIP
07/34	Creditors	10.00	10.00	14.76	4.76	Y
07/22	Financial planning / Treasury management	10.00	10.00	1.66	-8.34	WIP
07/28	Food safety and hygiene	10.00	10.00	0.00	-10.00	withdrawn
07/36	Housing benefits - quarterly check Q3	6.00	6.00	6.59	0.59	Y
07/37	Housing benefits fraud investigations	10.00	10.00	11.31	1.31	Draft
07/38	Housing repairs and maintenance	20.00	20.00	4.36	-15.64	WIP
07/39	Sickness	10.00	10.00	9.05	-0.95	Closure
07/40	Neighbourhood wardens/dog fouling/dog warden	7.00	7.00	8.15	1.15	Y
07/41	Purchasing cards	6.00	6.00	0.00	-6.00	withdrawn
07/43	Air quality	7.00	7.00	1.49	-5.51	withdrawn
07/44	Licences - Justices	7.00	7.00	10.17	3.17	Y
07/45	Planning enforcement	7.00	7.00	7.00	0.00	Y
07/46	Penetration Testing	10.00	10.00	0.00	-10.00	Y
	Total Quarter 3	140.00	140.00	77.39	-62.61	

Audit number	Audit item	Target Days	YTD Plan	YTD Actual	YTD Variance	Complete
07/47	Corporate Governance	5.00	3.33	0.00	-3.33	WIP
07/48	Debtors incl health check	10.00	6.67	0.14	-6.53	WIP
07/49	Fraud and corruption	5.00	3.33	0.00	-3.33	WIP
07/50	Housing benefits - Council tax , Rent allowances & other	20.00	13.33	12.73	-0.60	WIP
07/51	Internet controls	10.00	6.67	0.00	-6.67	withdrawn
07/52	Housing benefits - quarterly check Q4	6.00	6.00	6.28	0.28	Y
07/53	Purchasing	15.00	10.00	0.00	-10.00	withdrawn
07/54	Risk Management	10.00	6.67	0.00	-6.67	Y
07/55	Data protection	7.00	4.67	0.00	-4.67	withdrawn
07/56	E Planning	7.00	4.67	0.00	-4.67	withdrawn
07/57	Equalities inc Disability Discrimination Act	10.00	6.67	0.00	-6.67	withdrawn
07/58	Heritage Economic Regeneration schemes	7.00	4.67	0.00	-4.67	withdrawn
07/59	Elections	7.00	4.67	0.00	-4.67	withdrawn
07/60	Crematorium	7.00	4.67	6.59	1.92	WIP
07/61	Sale of land	7.00	4.67	0.00	-4.67	withdrawn
07/62	Local Plan	7.00	4.67	0.00	-4.67	withdrawn
07/63	Change controls	10.00	6.67	0.00	-6.67	withdrawn
	Total Quarter 4	150.00	102.03	25.74	-76.29	

Brought forward

Audit number	Audit item	Target Days	YTD Plan	YTD Actual	YTD Variance	Complete
06/02 bf	HB Performance standards	0.00	0.00	1.15	1.15	Y
06/06 bf	Payroll	0.00	0.00	0.48	0.48	Y
06/09 bf	Data Retention and disposal	0.00	0.00	5.23	5.23	Y
06/18 bf	Hire of vehicles/skips etc	0.00	0.00	3.03	3.03	Y
06/37 bf	Durham City Arts/Citizens advice	0.00	0.00	2.57	2.57	Y
06/42 bf	Council Tax	0.00	0.00	0.20	0.20	Y
06/48 bf	Fleet management	0.00	0.00	3.52	3.52	Y
06/55 bf	Travelling expenses	0.00	0.00	16.12	16.12	Y
06/62 bf	Corporate governance	0.00	0.00	2.53	2.53	Y
06/63 bf	Fraud and corruption	0.00	0.00	2.09	2.09	Y
06/64 bf	Housing benefits	0.00	0.00	1.35	1.35	Y
06/66 bf	Housing repairs and maintenance	0.00	0.00	32.37	32.37	Y
06/71 bf	Debtors	0.00	0.00	5.51	5.51	Y
06/73 bf	Equalities	0.00	0.00	3.38	3.38	Y
06/74 bf	Recruitment	0.00	0.00	1.62	1.62	Y
	Total brought forward			81.15	81.15	

		Target Days	YTD Plan	YTD Actual	YTD Variance
n/a	Follow ups	40.00	40.00	20.82	-19.18

Non Productive Time

	Target Days	YTD Plan	YTD Actual	YTD Variance
Bank holidays	48.00	48.00	45.00	-3.00
Annual Leave	197.00	180.58	171.00	-9.58
Sick leave	54.00	49.50	178.10	128.60
Special leave	6.00	5.50	8.80	3.30
Day Release	63.00	57.75	53.40	-4.35
Other training	60.00	55.00	24.80	-30.20
Study leave / exams	18.00	16.50	12.00	-4.50
TOTAL	446.00	412.83	493.10	80.27

Management and Administration (non chargeable)

	Target Days	YTD Plan	YTD Actual	YTD Variance
Audit planning and supervision	50.00	45.83	82.00	36.17
Review of Policy documentation	10.00	9.17	10.93	1.76
Audit Manual review in line with new CIPFA model	15.00	13.75	7.27	-6.48
Advice and discussion with District Audit	6.00	5.50	2.13	-3.37
Audit sub group	2.00	1.83	2.67	0.84
Idea sub group	2.00	1.83	0.00	-1.83
Business planning	5.00	4.58	0.13	-4.45
Document imaging/backscanning	10.00	9.17	1.07	-8.10
CPA	10.00	9.17	0.13	-9.04
Best value	20.00	18.33	0.07	-18.26
Risk management	10.00	9.17	12.47	3.30
Internal audit review meetings	10.00	9.17	6.20	-2.97
Procurement	10.00	9.17	1.40	-7.77
General administration	50.00	45.83	63.17	17.34
PDR's	3.00	2.75	1.93	-0.82
Business continuity	5.00	4.58	0.53	-4.05
Finance Management Team	5.00	4.58	1.80	-2.78
TOTAL	223.00	204.41	193.90	-10.51

Management and Administration (chargeable)

	Target Days	YTD Plan	YTD Actual	YTD Variance
Tender openings	3.00	2.75	1.67	-1.08
Financial appraisals	5.00	4.58	1.67	-2.91
Project implementation	10.00	9.17	0.27	-8.90
Stores - stocktaking	10.00	9.17	0.00	-9.17
Advice to departments	15.00	13.75	24.57	10.82
Departmental training	8.00	7.33	9.05	1.72
Organisational and departmental review of regulations and procedures	10.00	9.17	0.20	-8.97
Implementation of recommendations involving additional work	10.00	9.17	9.32	0.15
Statement of Internal control	10.00	9.17	10.47	1.30
Miscellaneous working groups	10.00	9.17	9.72	0.55
TOTAL	91.00	83.43	66.94	-16.49

Ad Hoc work (Contingency)

	Target Days	YTD Plan	YTD Actual	YTD Variance	
07 - cont	Creation of timesheets/databases etc	0.00	0.00	5.44	5.44
07 - cont	IT Failure	0.00	0.00	5.99	5.99
07 - cont	OMT	0.00	0.00	4.06	4.06
07 - cont	Cash receipting/reconciliations	0.00	0.00	1.89	1.89
07 - cont	North East Fraud Forum	0.00	0.00	0.68	0.68
07 - cont	Gala Tills proposal	0.00	0.00	0.20	0.20
07 - cont	Key lines of enquiry - use of resources	0.00	0.00	3.96	3.96
07 - cont	Elvet Waterside development	0.00	0.00	0.00	0.00
07 - cont	Crematorium accounts reconciliation for EH	0.00	0.00	0.41	0.41
07 - cont	Bunker risk assessment	0.00	0.00	0.27	0.27
07 - cont	Lost time	0.00	0.00	13.85	13.85
07 - cont	Housing Strategy	0.00	0.00	0.41	0.41
07 - cont	District Audit - Internal Audit review	0.00	0.00	0.82	0.82
07 - cont	Treasury Management	0.00	0.00	2.70	2.70
07 - cont	Crematorium administration	0.00	0.00	2.57	2.57
07 - cont	Key lines of enquiry - data quality	0.00	0.00	2.71	2.71
07 - cont	New Audit Code of Practice	0.00	0.00	2.41	2.41
07 - cont	New Corporate Governance guidelines	0.00	0.00	1.42	1.42
07 - cont	Office furniture	0.00	0.00	0.68	0.68
07 - cont	Baths till reprogramming training	0.00	0.00	0.41	0.41
07 - cont	Emergency planning	0.00	0.00	1.02	1.02
07 - cont	Gala safety	0.00	0.00	0.07	0.07
07 - cont	National Fraud initiative	0.00	0.00	1.69	1.69
07 - cont	Portfolio holders	0.00	0.00	0.41	0.41
07 - cont	Sx3 Consultancy audit set up	0.00	0.00	1.08	1.08
07 - cont	District vision	0.00	0.00	0.68	0.68
07 - cont	Audit awareness presentation	0.00	0.00	1.63	1.63
07 - cont	Office move	0.00	0.00	14.62	14.62
07 - cont	2005/06 Payroll discussion with Service	0.00	0.00	0.27	0.27
07 - cont	Rent restructuring model	0.00	0.00	1.15	1.15
07 - cont	Debtors recommendations - corporate meeting	0.00	0.00	0.41	0.41
07 - cont	Neighbourhood management	0.00	0.00	1.01	1.01
07 - cont	Job vacancy, questions, interviews etc.	0.00	0.00	3.65	3.65
07 - cont	Durham Business School	0.00	0.00	0.34	0.34
07 - cont	CFO's	0.00	0.00	0.27	0.27
07 - cont	Self Service	0.00	0.00	0.14	0.14
07 - cont	Accounts and Audit Regulations	0.00	0.00	0.54	0.54
07 - cont	Staff Turnover contingency	30.00	27.50	0.00	-27.50
07 - cont	Special investigations contingency	150.00	137.50	11.49	-126.01
Total		180.00	165.00	91.35	-73.65

Totals		1560.00	1437.70	1334.81	-102.89
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Appendix B

Proposed Audit Plan 2007/08

1) System review work

Quarter 1			Risk	Audit days	
08/01	HR/PP	Performance Indicators	H	15	
08/02	FS/ACC	Accountancy - Financial management system	H	10	
08/03	FS/ACC	Capital Finance (incl leasing and prudential code)	H	10	
08/04	FS/R	Cash reconciliations (incl arrears, refunds and write offs)	H	5	
08/05	ELS/TSS	Burial service	M	10	
08/06	HR/IT	IT - Application controls	M	10	
08/07	FS/R	NNDR liability incl valuation, collection, voids, refunds, discounts and write offs	H	10	
08/08	ELS/LS	Swimming Baths	H	15	
08/09	HS/HB	Housing benefits - quarterly check Q1	H	7	
08/10	FS/ACC	Grants register incl guidance, procedures and min standards for WP	M	15	
				107	134

incl other items

Quarter 2			Risk	Audit days	
08/11	FS/R	Council Tax liability incl valuation, collection, voids, discounts, exemptions, refunds and w/offs	H	15	
08/12	FS/ACC	Accountancy Final accounts	H	7	
08/13	PS/AM	Asset register	H	10	
08/14	HS/HB	Housing benefits - Performance standards	H	10	
08/15	LAS/A	Creditors	M	10	
08/16	LAS/A	Payroll incl overtime, maternity/paternity, mileage and disturbance	H	15	
08/17	FS/R & CS/CUS	Cash collection incl receipting, electronic payments, kiosks, suspense	H	10	
08/18	PS/HM	Gas maintenance	M	10	
08/19	SR/BD	Risk Management	H	7	
08/20	PS/HM	Responsive repairs	H	10	
08/21	HS/HB	Housing benefits - quarterly check Q2	H	7	
08/22	HR/IT	IT - data protection	M	15	
				126	133

incl other items

Quarter 3			Risk	Audit days	
08/23	ALL	Sickness	H	10	
08/24	ELS/LS	Stage School	M	10	
08/25	LAS/A	System reconciliation	H	10	
08/26	HS/HB	Housing benefits - quarterly check Q3	H	7	
08/27	PS/HM	Planned Maintenance	H	10	
08/28	HR/IT	IT internal penetration testing	M	10	
08/29	ELS/LS	Sports Centres	H	30	
08/30	HR/IT	IT - internet controls	H	10	
08/31	SR/BD	Treasury management	M	5	
08/32	CS/CUS	Customer services	M	20	
08/33	ALL	Data retention and disposal	M	10	
				132	132

incl other items

Quarter 4			Risk	Audit days
08/34	ELS/EN	Transfer station	M	10
08/35	FS/ACC	Accountancy estimates	H	10
08/36	FS/R	Housing rents liability incl rent calculation, collection, voids refunds and write offs	H	10
08/37	HS/HB	Housing benefits - quarterly check Q4	H	7
08/38	HS/HB	Housing benefits - Council tax, rent allowances etc.	H	20
08/39	OTHER	Crematorium	M	7
08/40	HR/IT	IT - business continuity/disaster recovery	H	10
08/41	HS/HB	Housing benefits fraud investigations	H	10
08/42	FS/R	Debtors incl a/c raising, recovery, write off and system	M	10
08/43	HR/IT	IT - change controls	M	10
08/44	CUS/GT	Gala - catering and bars	M	10

114

129

incl other items

2) Value for money work

			Risk	Audit days
08/45	FS/R	VFM - Kiosks (Quarter 2)	n/a	7
08/46	FS/R	VFM - rent collectors (Quarter 1)	n/a	7
				14

3) Other audit work

			Risk	Audit days
08/47	ALL	Governance arrangements (Quarter 4)	H	5
08/48	ALL	Fraud and Corruption (Quarter 4)	H	5
08/49	ALL	Statement of Internal Control (Quarter 4)	H	5
08/50	OTHER	Durham Sport (Quarter 1)	M	10
08/51	FS/ACC	Service charges (Quarter 1)	M	10
				35

Total 528
Available 580
Spare capacity 52

Audit Environment sorted by risk score

			Risk	Audit days
	OTHER	Durham Housing partnership	H	
	HR/PP	Performance planning	H	
	HS/H	Housing lettings	H	
	FS/ACC	VAT	M	
	ALL	Security	M	
	LAS & SR	Tender procedures	M	
	ED/HS	Health and Safety	M	
	LAS/LES	RTB's	M	
	LAS/LES	Sale of land	M	
	CUS/GT	Gala - Box office	M	
	LAS/LES	R.I.P.A.	M	
	PS/TR	Contaminated Land	M	
	HS/CC	City Care	M	
	HS/CC	Supporting people	M	
	HR/IT	IT - management and financial controls	M	
	ELS/EN	Refuse collection	M	
	HR/PP	Performance Management	M	
	ELS/GM	Transport / fleet management	M	
	CUS/HD	Villages appraisal	M	
	PS/BS	Decent homes standard	M	
	HS/SD	Homelessness	M	
	ELS/EN	Grounds maintenance	M	
	CS/PR	Policy and Protocol for PR	M	
	LAS/DS	Committee support structure	M	
	PS/HM	Housing maintenance stores	M	
	PS/HM & HS/H	Void management incl property clearance and dirty houses	M	
	ELS/EN	Recycling	M	
	HS/SC	Adaptations / special needs	M	
	HS/CC	CCTV	M	
	LAS/L	Enforcement (Legal)	M	
	PS/P	Purchasing	M	
	CS/ED	External Funding	M	
	ELS/LE	Playschemes	M	
	OTHER	Durham Sport	M	
	CS/CS & HS/ASB	Anti Social Behaviour	M	

	HR/IT	IT - file controls	M	
	ELS/EH	Food safety and hygiene	M	
	LAS/A	Insurance operational	M	
	ELS/EH	Public health	M	
	ELS/EN	Removal and disposal of white goods	M	
	PL/BC	Building control - Income	M	
	SR/SR	Grants & donations	M	
	ELS/EH	HMO licencing	M	
	SR/SR	Insurance strategy	M	
	ELS/EN	Street cleaning - Litter picking	M	
	ELS/EN	Street cleaning - Road sweeping	M	
	ALL	Flexitime	M	
	LAS/LES	Money Laundering	M	
	PS/HM	Rechargeable works, rechargeable repairs and DLO recharges	M	
	SR/TM	Loans / investments	M	
	ELS/EH	Food and water sampling	M	
	HR/IT	IT - Physical and environmental controls	M	
	CUS/T & ELS/LS	Events programme / visioning	M	
	HR/IT	IT - Procurement	M	
	PL/BC	Building control - Agency transactions	M	
	FS/ACC	Service charges	M	
	HS/H & LAS/A	Furniture pack scheme	M	
	CUS/GT	Gala - Administration	M	
	CS/CD	Community development(Neighborhood development)	M	
	CUS/HD	City Centre development	M	
	CUS/HD	Heritage and Design	M	
	ELS/EH	Investigation of infectious diseases	M	
	ELS/LS	Gymnastics Centre	M	
	ELS/TSS	Cemeteries & churchyards	M	
	PS/BC	Disability access	M	
	LAS/A	Elections	M	
	LAS/DS	Civic functions / mayoral duties	M	
	ELS/EH	Pest control commercial and residential	M	
	LAS/LES & HS/H	Home loss payments	M	
	PS/HM	Public conveniences provision and maintenance	M	
	LAS/L	Licences - animal welfare establishments	M	
	PL/PL & LAS/LES	Planning enforcement incl consultant role	M	
	CS/ED	Corporate Public consultation	M	
	CS/ED	Economic Development (City Centre)	M	
	ELS/GM	Vehicle maintenance	M	
	ELS/LS	Parks attendants	M	
	HR/IT	IT - PC controls	M	
	LAS/LES	Land Charges	M	
	PL/BC	Building control - enforcement	M	
	PL/BC	Building control - plan inspection	M	
	PL/BC	Building control - site inspection	M	
	ELS/EH	Neighbourhood Wardens / dog fouling	M	
	CS/ED	Economic Development (Business development)	M	
	ELS/EH	Private sector housing standards enforcement	M	
	ELS/LS	Multi Sensory room	M	
	SR/TM	Charity accounts - Mildred Brown etc	M	
	CUS/TIC	Tourism strategy	M	
	CUS/TIC	Tourist Information centre	M	
	LAS/L	Licences - gambling	M	
	CUS/GT	Town hall facilities management	M	
	FS/R	Electric meters - Gypsy sites	M	
	HR	Equal opportunities and equalities incl DDA	M	
	HR	Recruitment	M	
	LAS/A	Members	M	
	LAS/A	Register of Electors	M	
	CS/ED	Flourishing Communities Fund	M	
	CUS/HD	Listed building applications	M	
	CUS/HD	Urban Design	M	
	ELS/LS	National Health promotion	M	
	ELS/TR	Dog fouling bins	M	
	LAS/LES	Shop leases / rents	M	
	OTHER	Document scanning - DOCS on line	M	
	CS/DC & PL/PL	Development control - Income	M	
	CS/DC & PL/PL	Development control & development plans - e planning	M	
	CS/ED	Economic Development (Strategic)	M	

	CUS/GT	Gala - marketing	M	
	ELS/EH	Environmental Health nuisance enforcement	M	
	ELS/EN	Noise pollution	M	
	ELS/GM	Vehicle tests - car loans	M	
	ELS/LS	Leisure development	M	
	PL/PL	Development plans - annual monitoring	M	
	LAS/A	Freedom of Information	M	
	SR/BD	Financial Planning	M	
	SR/SR	Concessionary fares - policy	M	
	ELS/EH	Dog warden & kenneling	M	
	FS/R	Bailiffs - management and use of	M	
	LAS/A	Pensions incl EVR	M	
	LAS/A	Purchasing cards	M	
	ELS/LS	Positive futures	M	
	HR/IT	IT - Post implementation review	M	
	SR/SR	Interest free loans	M	
	HR	General resilience surveys	M	
	CS/CUS	Concessionary fares operational	M	
	OTHER	Durham City arts	M	
	CS/DC & PL/PL	Development control & development plans - consultation	M	
	CS/DC & PL/PL	Development control & development plans - procurement of specialist advice	M	
	CS/ED	Local strategic partnership	M	
	CUS/HD	Heritage Economic Regeneration scheme	M	
	ELS/EN	Bulky item collection service	M	
	PL/PL	Development plans - brownfield sites	M	
	PL/PL	Development plans - housing sites database	M	
	?	Housing Board	M	
	?	Housing Panels	M	
	HS/H	Resident Wardens	M	
	ELS/GM	Vehicle tests (MOT's)	M	
	ELS/LS	Coaching	M	
	FS/R	Debt management strategy	M	
	ELS/LS	Unemployed scheme	M	
	HR	Training / workplace development	M	
	LAS/DS	Communication strategy	M	
	ELS/EN & PS/EN	Estate management	M	
	ELS/LS	Healthy Lifestyles Initiative	M	
	LAS/A	Subsistence allowances	M	
	LAS/A	Travelling expenses	M	
	PL/PL	Local Plan	M	
	CS/CUS & LAS/LES	Complaints procedure	M	
	HS/H & LAS/A	Council house contents insurance	M	
	CUS/C	Financial incentives to Industry	M	
	LAS/A	Disposal of bodies / paupers funerals	M	
	LAS/A	Conferences & Seminars	M	
	LAS/L	Licences - Hackney Carriages incl private hire	M	
	ELS/LS	Community Bus	M	
	ALL	Hire of vehicles / skips etc	M	
	HR/IT	IT - Project management controls	M	
	HS/H	Gypsy sites management	M	
	PS/ TR	Car park contract	M	
	ALL	BACS / CHAPS	M	
	HR/IT	IT - E Commerce controls	M	
	LAS/A	Post opening procedures	M	
	ALL	Energy conservation	M	
	ELS/SUS	Canteen facilities	M	
	PS/BS	District heating	M	
	HR/IT	IT - Strategy	M	
	ALL	Obsolete equipment	M	
	CUS/GT	Gala - agency workers	M	
	CUS/HD	Castle & cathedral floodlighting	M	
	ELS/LS	GP referral	M	
	ELS/TSS	Allotments - Direct and Allotment Associations	M	
	LAS/L	Licences - Justices	M	
	ELS/EH	Air pollution control incl authorisation of prescribed processes	M	
	ELS/EN	Britain in Bloom	M	
	ELS/LS	Older Persons rally	M	
	LAS/L	Licences - Butcher shops	M	
	FS/ACC	NWA collection	M	
	ALL	Dataflow and use of MFD'd	M	

	ALL	Imprests	M	
	FS/R	Telephone coin boxes	M	
	ELS/EH	Home composting	M	
	ELS/SUS	Communal Halls	M	
	CUS/C	Historic Building materials	M	
	ELS/E	OAP/disability provision for tending gardens (tenants only)	M	
	ELS/EH	Housing financial assistance	M	
	ELS/EN	Stray horses	M	
	ELS/TSS	Abandoned vehicles incl liaison with removal companies	M	
	SR/TM	Bank charges	M	
	PS/BS	Disturbance payments and redecoration allowances	M	
	ALL	Mobile phones	M	
	ALL	Telephones	M	
	CUS/C	Trees on council Land	M	
	HR & LAS/A	Post entry training allowances	M	
	OTHER	Citizens Advice	M	
	ALL	Vending machines	M	
	CUS/C	Trees regulatory	M	
	ALL	Equipment rental etc - photocopiers etc	L	
	HS/CC	Concessionary TV licences	L	
	ALL	Agency Staff	L	
	ALL	Telephone allowances	L	
	FS/ACC	Mortgages	L	
	ALL	Stationary	L	

CFO INTERNAL AUDIT BENCHMARKING EXERCISE - 2005/2006 ACTUAL DATA

1. Cost & Use of Audit Time

Authority	Net Cost £,000 (Budget)	FTE Staff	Total Days P/A	Non Chargeable Days (see 3 below)	Chargeable Days (see 2 below)	Non Chargeable Days Per FTE	Chargeable Days Per FTE	Cost Per audit Day £	Total Cost Per FTE £,0000
Chester-le-St	132.00	3.14	816	239.00	577.00	76	184	161.76	42.04
Derwentside	196.00	4.50	1,175	367.00	808.00	82	180	166.81	43.56
Durham	185.00	5.54	1,447	600.00	847.00	108	153	127.85	33.39
Easington	176.35	4.00	1,044	438.00	606.00	109	151	168.92	44.09
Sedgfield	153.00	4.90	1,280	479.00	801.00	98	163	119.53	31.22
Teesdale	48.00	1.20	310	119.25	190.75	99	159	154.84	40.00
Wear Valley	98.00	3.00	780	266.00	514.00	89	171	125.64	32.67
Average	141.19	3.75	978.86	358.32	620.54	94.43	165.86	146.48	38.14

2. Chargeable Audit Days

Authority	Main Financial Systems (see 4 below)	Computer Audit	Fraud (1)	Contract Audit	Corporate Governance (2)	VFM/ Review	Consultancy/ Advice	Other/ Excluded	Total
Chester-le-St	186.50	19.00	18.00	16.00	15.00	0.00	88.00	234.50	577.00
Derwentside	267.00	8.00	103.00	100.00	33.00	0.00	63.00	234.00	808.00
Durham	287.00	51.00	16.00	0.00	47.00	18.00	65.00	363.00	847.00
Easington	129.00	29.00	45.00	80.00	72.00	0.00	33.00	218.00	606.00
Sedgfield	251.50	4.50	12.50	20.00	33.50	0.00	0.00	479.00	801.00
Teesdale	83.00	1.50	0.50	0.00	8.00	0.00	0.00	97.75	190.75
Wear Valley	199.00	29.00	20.00	5.00	11.00	0.00	16.00	234.00	514.00
Average	200.43	20.29	30.71	31.57	31.36	2.57	37.86	265.75	620.54

Notes:

(1) Fraud to include policies, prevention, detection, investigations and NFI work.

(2) Corporate Governance to include SIC, Risk Management, Corporate Governance, Standing Orders and Financial Regs.

3. Non - Chargeable Audit Days

Authority	Public Holidays	Annual Leave	Sick Leave	Professional Training	Other Training	Non Chargeable Mgmt	Admin Support	Other Non Chargeable Time	TOTAL	FTE	Sick Leave Per FTE	Mgmt Per FTE
Chester-le-St	24.00	93.00	14.50	26.50	0.00	40.00	0.00	41.00	239.00	3.14	4.62	12.74
Derwentside	27.00	119.00	27.00	28.00	30.00	35.00	0.00	101.00	367.00	4.50	6.00	7.78
Durham	32.00	162.00	64.50	54.00	77.00	76.00	85.50	49.00	600.00	5.54	11.64	13.71
Easington	24.00	116.50	30.00	0.00	13.00	36.00	124.00	94.00	437.50	4.00	7.50	9.00
Sedgfield	29.00	146.50	5.00	70.00	5.00	26.00	26.00	171.50	479.00	4.90	1.02	5.31
Teesdale	6.00	29.00	0.00	0.00	8.50	35.75	0.00	40.00	119.25	1.20	0.00	29.79
Wear Valley	18.00	87.00	21.00	34.00	12.00	41.00	24.00	29.00	266.00	3.00	7.00	13.67
Average	22.86	107.57	23.14	30.36	20.79	41.39	37.07	75.07	358.25	3.75	5.40	13.14

4. Main Financial Systems

Authority	Payroll	Debtors	Creditors	Cash Collection	Main Accounting System	Housing Rents	NNDR	Housing Benefits	Council Tax	Treasury Mgmt	Capital Accounting	Stores	TOTAL
Chester-le-St	34.00	11.50	16.50	17.00	19.00	26.00	0.00	45.50	16.00	1.00	0.00	12.00	198.50
Derwentside	29.00	4.00	46.00	15.00	11.00	22.00	22.00	45.00	40.00	10.00	0.00	23.00	267.00
Durham	61.00	11.00	10.00	25.00	83.00	19.00	10.00	40.00	20.00	1.00	1.00	6.00	287.00
Easington	19.00	22.00	0.00	20.00	24.00	13.00	1.00	1.00	17.00	12.00	0.00	0.00	129.00
Sedgfield	27.00	13.00	18.00	37.00	0.00	36.00	16.00	40.00	15.00	13.00	16.00	20.50	251.50
Teesdale	5.00	5.00	10.00	5.00	15.00	5.00	10.00	15.00	10.00	2.00	0.00	1.00	83.00
Wear Valley	31.00	15.00	25.00	11.00	16.00	19.00	11.00	28.00	18.00	9.00	5.00	11.00	199.00
Average	29.43	11.64	17.93	18.57	24.00	20.00	10.00	30.64	19.43	6.86	3.14	10.50	202.14

Staffing:

5. By Pay Band

Authority	Under £15k	£15 - 20k	£20 - 30k	£30 - 40k	Total
Chester-le-St		0.14	2.00	1.00	3.14
Derwentside		2.00	1.50	1.00	4.50
Durham	0.85	0.67	2.85	1.17	5.54
Easington			3.00	1.00	4.00
Sedgfield	2.00	1.00		2.00	5.00
Teesdale			1.00		1.00
Wear Valley	1.00	1.00	1.00		3.00
Average	0.55	0.69	1.62	0.88	3.74

6. By Qualification Level

Authority	Professional Qualification	Part Qualified CCAB	AAT	Other Specialists	Trainees CCAB/IIA	Trainees AAT	Unqualified	Total
Chester-le-St	1.00	1.00	1.00			0.14		3.14
Derwentside	1.00	1.50		1.00		1.00		4.50
Durham		4.69					0.85	5.54
Easington	1.00		3.00			2.00		4.00
Sedgfield	2.00	1.00						5.00
Teesdale	1.00							1.00
Wear Valley		1.00				1.00	1.00	3.00
Average	0.86	1.31	0.57	0.14	0.00	0.59	0.26	3.74

7. By Number of Years Experience

Authority	Under 1 Year	1 - 5 Yrs	6 - 10 Yrs	Over 10 Yrs	Total
Chester-le-St	0.50	0.14	2.00	1.00	3.14
Derwentside	1.53	2.00	1.00	1.00	4.50
Durham		2.86		1.15	5.54
Easington		0.50		3.50	4.00
Sedgefield		3.00		2.00	5.00
Teesdale			1.00		1.00
Wear Valley	1.00			2.00	3.00
Average	0.43	1.21	0.57	1.52	3.74

8. Financial Size

Authority	Gross Revenue Spend £m	HRA Income £m	All Other Income £m	Total £m
Chester-le-St	46	13	19	78
Derwentside	49.60	17.50	11.60	64.00
Durham	52.72	13.81	27.46	11.45
Easington	59.88	23.00	42.99	125.87
Sedgefield	53.10	21.90	7.10	82.10
Teesdale	13.77	7.80	2.10	3.87
Wear Valley	58.90	11.00	36.90	11.00
Average	47.71	15.43	21.02	53.76

OMT30th JANUARY 2007REPORT OF THE DIRECTOR OF STRATEGIC RESOURCESChanges to the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006Purpose of this Report

This report is intended to highlight a number of issues arising out of the new Code of Practice published in December 2006

The new Code reflects changes to the Accounts and Audit Regulations and practices relating to corporate governance and emphasizes the importance of internal audit in the proper management of organizations. It more closely aligns practice with current approaches for auditors particularly in respect of developments in risk management and the impact on planning internal audit activity.

The revised code defines the way in which the internal audit service should undertake its functions.

Definition of Internal Audit (items shown in brackets have been deleted from the definition)

The definition has been amended to read: *“Internal Audit is an assurance function that (primarily) provides an independent and objective opinion to the organization on the control environment, (comprising risk management, control and governance) by evaluating its effectiveness in achieving the organizations objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper economic, efficient and effective use of resources”*

Additional commentary on the definition now highlights the responsibility of the organisation to establish and maintain appropriate risk management processes, control systems, accounting records and governance arrangements.

Importance is also addressed to the part that internal audit play in advising the organisation that these arrangements are in place and working effectively; the annual internal audit opinion which informs the Statement on Internal Control; the organisations response to internal audit activity and the effect that this has on strengthening the control environment and the contribution to the organisations overall objectives; the need to work in partnership with management to improve the control environment and assist the organisation in the achievement of its objectives.

Additional detail added to the code as part of the commentary on the definition includes reference of the need for internal audit to be judged not only on its adherence to the code but also by its contribution to the organisation that it serves. It suggests that an effective internal audit service should aspire to:

- Understand the whole organisation, its needs and objectives
- Understand its position with respect to the organisations other sources of assurance and plan its work accordingly
- Be seen as a catalyst for change at the heart of the organisation
- Add value and assist the organisation in achieving its objectives

- Be forward looking – knowing where the organisation wishes to be and aware of the national agenda and its impact
- Be innovative and challenging
- Help to shape the ethics and standards of the organisation
- Ensure the right resources are available, recognising that the skills mix, capacity, specialisms, qualifications and experience requirements all change constantly
- Share best practice with other auditors
- Seek opportunities for joint working with other organisations auditors.

Scope of Internal audit

Terms of reference

There are now two additional areas that internal audit must address:

- a) The role of internal audit in any fraud-related or consultancy work
- b) Explain how Internal Audit's resource requirements will be assessed

Internal audit's terms of reference will be reviewed accordingly.

Ethics

A section on ethics has now been included in the code as a standard. Additions to the subsection on competence, suggests that internal auditors should ensure that they have sufficient knowledge of:

- The organizations aims, objectives, risks, and governance arrangements.
- The purpose, risks and issues of the service area
- The scope of each audit assignment
- Relevant legislation and other regulatory arrangements that relate to the audit.

Internal audit has already addressed these issues as part of its ongoing review of the audit process.

Audit Committees

Independent audit committees are now considered to be CIPFA's preferred model for local authorities and as best practice.

Purpose of audit committee

An addition to the code suggests that it is the role of the audit committee to provide independent assurance on the adequacy of the risk management framework and the associated control environment. This has been reflected in a change to the terms of reference for the Audit Overview Committee recently.

It is also considered that the role of an audit committee is to provide independent scrutiny of the authority's financial and non financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment. It is arguable as to the degree of involvement in performance review that the committee should have and I would seek guidance in this respect.

Relationships

An addition to the code involves the Principles of Good Relationships, in which the quality of a wide range of internal and external relationships impacts on the effective delivery of the audit function, its reputation and independence.

The HOIA must manage relationships to ensure that there is clarity on issues such as:-

- The nature of the relationship and its objectives
- The responsibilities, expectations and objectives of each party.

This is to ensure that Internal Audit plans and activities are co-ordinated with those of other parties to achieve the most effective audit coverage while minimizing duplication.

Internal audit to amend audit process to reflect these changes

Staffing, Training and CPD

Internal audit should have access to appropriate resources in order to meet its objectives and to comply with the standards contained within the Code of Practice

The HOIA is responsible for ensuring that up to date job descriptions exist that reflect roles and responsibilities and that person specifications define the required qualifications, competencies, skills, experience and personal attributes.

Addition to the code – training and continuing professional development

The HOIA should define the skills and competencies for each level of auditor and measure their staff against them. The HOIA will periodically assess individual auditors against these predetermined skills and competencies. Any training or development needs identified should be included in an appropriate ongoing development programme that is recorded and regularly reviewed and monitored.

CIPFA publication “The Excellent Internal Auditor” A good practice guide to skills and competencies has been purchased with a view to determining training and development skills in line with the requirements of the Code.

Audit Strategy

The HOIA must produce an audit strategy; this is the high level statement of how the internal audit service will be delivered and developed in accordance with the terms of reference and how it links to the organisational objectives and priorities.

The strategy will communicate the contribution that Internal Audit makes to the organisation and should include;

- Internal objectives and outcomes
- How the HOIA will form and evidence his or her opinion on the control environment to support the annual Statement on Internal Control
- How internal audits work will identify and address significant local and national issues and risks
- How the service will be provided ie internally, externally or a mixture of both
- The resources and skills required to deliver the strategy.

The strategy should be approved but not directed by the audit committee.

Internal Audit has recently reviewed its audit strategy, which was approved by the Audit Overview Committee on the 11th January 2007 however, the HOIA was aware that this would need to be reviewed again to reflect changes contained in the new Code.

Audit planning

The code reflects the movement towards a completely risk based audit plan and the necessity to take account of the adequacy and outcomes of the organisations risk management, performance management and other assurance processes. Where the outputs from those processes are not judged to be sufficiently reliable, the HOIA should undertake his/her own risk assessment. The HOIA should consult stakeholders on the draft plan and revise the plan where appropriate.

In order to compile the plan, there must be a clear understanding of the organisations functions and the scale and breadth of potential audit areas.

The audit plan should be fixed for a period of no longer than one year. The plan should outline the assessments to be carried out their respective priorities and the estimated resources needed. The plan should differentiate between assurance and other work. The plan needs to be flexible to reflect the changing risks and priorities of the organisation.

Once the planned work has been determined, this should be compared to resource availability. Where there is an imbalance between the two, the audit committee should be informed of proposed solutions. The audit committee should approve but not direct the internal audit plan.

The HOIA is responsible for the delivery of the audit plan. Significant matters that jeopardise the delivery of the plan or require changes to the plan should be identified, addressed and reported to the audit committee.

The HOIA has already made satisfactory progress towards the requirements of the code as part of the audit planning process for 2007/08.

Undertaking audit work

A major amendment to the code involves the approach used to undertake audit work, this approach must be risk based

At each stage of the audit, auditors should consider what specific work needs to be conducted and evidence gathered to support an independent and objective audit opinion

During the course of the audit, key issues should be brought to the attention of the relevant manager to enable them to take corrective action and to avoid surprises at the closure stage.

All audit work should be subject to an appropriate internal quality review process.

All aspects of this part of the code are already incorporated into the existing audit process.

Reporting

Specific changes to the code relate to the need to prioritise recommendations according to risk, ensure that appropriate mechanisms are in place so that recommendations with a wider impact are reported to the right forum, and that appropriate follow up procedures are in place.

All aspects of this part of the code are already incorporated into the existing audit process.

Performance, Quality and Effectiveness

An addition to the code suggests that performance, quality and effectiveness should be assessed at two levels:

- a) for each individual audit
- b) for the internal audit service as a whole

Currently the HOIA requests the return of post audit questionnaires for each individual audit to measure each auditors performance.

For the internal audit service as a whole there are numerous ways in which the HOIA can assess performance. Through the monitoring role of the audit overview committee, review of internal audit work by the external auditor, the use of resources judgement, benchmarking and via the annual client survey. There is sufficient evidence that both of these aspects of the code are being achieved.

The HOIA should have in place a performance management and quality assurance framework to demonstrate that the internal audit service is:

- a) meeting its aims and objectives
- b) compliant with this Code
- c) meeting internal quality standards
- d) effective, efficient, continuously improving
- e) adding value and assisting the organisation in achieving its objectives.

The performance management and quality assurance framework must include, but not be limited to:

- a) A comprehensive set of targets to measure performance, developed in consultation with appropriate parties. Performance measures should be included in any service level agreement. The HOIA should measure, monitor and report appropriately on the progress against these targets
- b) Seeking user feedback for each individual audit and periodically for the whole service
- c) A periodic review of the service against the strategy and the achievement of its aims and objectives. The results of this should inform the future strategy
- d) Internal quality reviews to be undertaken periodically to ensure compliance with this Code and the audit manual
- e) An action plan to implement improvements

The HOIA needs to ensure that the performance and the effectiveness of the service improves over time, in terms of both the achievement of targets and the quality of the service provided to the user.

The HOIA should report on the results of the performance management and quality assurance programme in the annual audit report

The results of the Internal audit performance and quality assurance processes are likely to contribute to the organisations review of the effectiveness of the systems of internal audit.

Several aspects of this part of the code need to be addressed. Whilst a number of targets to measure performance have been in place a number of years these are currently under review. Targets need to be appropriate, measurable and not over ambitious. User feedback for each individual audit is already obtained, and the return of these forms are now compulsory. We have seen a definite improvement in performance over the last few years. An annual client survey has also shown increased confidence in the section. Business planning is reviewed annually

and will include measures to monitor the achievement of aims and objectives as well as setting an action plan for improvements.

A review process for internal audit has already been suggested to meet the requirements of the Accounts and Audit Regulations 2006.

In addition, the code now incorporates as an appendix a comprehensive checklist to measure compliance and it is the intention of the HOIA to carry out a review in the near future with the Director of Strategic Resources.

Overall, City of Durham's Internal Audit Section has many of the new requirements of the code already in place although some minor amendments to the audit terms of reference and the audit strategy are required. A complete review of the audit manual is necessary to bring it up to date with changes to the audit process that has already taken place as a result of continual improvement over the last few years. Changes required from the code can be incorporated at the same time. The audit planning process is well underway, with a complete review of the audit environment, the development of a more robust audit risk matrix, and minor changes to the audit process. New training and development skills will be determined over the next few months. Performance targets will be re-assessed and reviewed, and an overall review of the internal audit service will be carried out to meet the requirements of the Accounts and audit Regulations 2006.

AUDIT OVERVIEW COMMITTEE

28TH MARCH, 2007

REPORT OF HEAD OF FINANCIAL SERVICES

STATEMENT OF ACCOUNTS AND SORP 2006

1. INTRODUCTION / PURPOSE OF THE REPORT

- 1.1 The purpose of this report is to bring to members' attention the changes to the form and structure of the City Council's Annual Statement of Accounts, which will apply to the 2006/07 statements and beyond. The report also touches on issues relating to Statement of Accounts for 2007/08, with the overall aims of providing members with an appreciation of the reasoning behind the changes in advance of their consideration / scrutiny of the draft statements before submission to Council for formal approval and certification on 27 June 2007.

2. BACKGROUND INFORMATION

- 2.1 The Council's accounts are prepared on an annual basis and in accordance with recommended accounting practice, as specified in the Best Value Code of Practice on Local Authority Accounting (BVACOP) and accompanying Guidance Notes for Practitioners, issued by the Chartered Institute of Public Finance and Accountancy (C.I.P.F.A.). The Institute's guidance note on the application of Statements of Standard Accounting Practice (S.S.A.Ps.) and Financial Reporting Standards (F.R.Ss.) – set out annually in the Statement of Recommended Practice (S.O.R.P.) - dictates the mandatory form and structure of the Council's accounts, together with accounting treatment that (must) should be applied.
- 2.2 It is against this guidance that the Audit Commissions appointed auditor externally and independently assess the statements prepared and approved by members each year. The external audit officially starts in July each year, however, some mid-closure work on significant items is undertaken prior to approval by members in order to maximise resource availability and minimise any risk of any potential significant errors making their way into the Statements presented to members in late June.
- 2.3 The Audit Commission deadline for expressing an opinion on the Accounts is 30 September and within this the external auditor is required to express an opinion as to whether the accounting policies the Council has applied are appropriate to the Authority's circumstances (i.e. consistent with the S.O.R.P.) and that these have been consistently applied and adequately disclosed. A significant departure from the requirements of the S.O.R.P. could result in a qualified opinion being expressed on the accounts and even if this were to be avoided, the authority would be required to amend its accounts to reflect / adjust for the errors in the original disclosure – as was the case with the 2004/05 Accounts in relation to the bank reconciliation – prior to issue of the auditors certification / opinion on the Accounts.

- 2.4 Members should note that material errors in the Accounts would result in an automatic maximum score of 1 against the Use of Resources Criteria for Financial Statements. This in turn would inhibit the overall maximum score that could be obtained in that years Use of Resources Assessment and as members are aware, the Use of Resources Scores have a significant and increasing bearing on an authorities overall corporate assessment by the Audit Commission. Put simply, without an overall Use of Resources Score of 3 or more the Council has little chance of improving its overall corporate assessment of being a Fair Authority.

3. CHANGES IN 2006/07 – S.O.R.P. 2006

- 3.1 Members will note with interest that the form and structure of local authority accounts has been subject to constant change in recent years – with more and more information having to be disclosed in the accounts every year and authorities being required to prepare Group Accounts where they have relationships with external bodies that satisfies the definitions of a Group. The City Council must statutorily prepare Group Accounts relating to its relationship with Durham Villages Regeneration Company and has done so since 2004/05.
- 3.2 2006/07, however, sees a considerable change in the style, format and (in some instances) the content / structure of the financial statements that must be prepared. The changes are brought about by a desire to converge local authority accounting arrangements more in line that of the private sector and for them to be “UK GAAP compliant”. That is that the accounting practices in local authorities are in line with / comparable to the Generally Accepted Accounting Practices in the private sector.
- 3.3 The S.O.R.P. 2006 (applicable to accounts for the financial year ended 31 March 2007) was published in Autumn 2006 and sets out recommendations regarding these changes, however, the detailed practitioners guidance on how to apply the changes set out in the S.O.R.P. were subject to constant and lengthy delay and have only recently (they were published 27 February 2007) been made available to Local Authorities. This guidance is supplemented by national and regional seminars and training sessions – to which the City Council has been well represented to ensure all these changes, are fully understood and implemented correctly.
- 3.4 In addition to bringing the form and structure of the accounts into more of a UK GAAP compliant context, the whole aim of these changes is to try and make the statements more accessible and better understood. Members should note that, whilst these changes are applicable from 2006/07 onwards, there is a requirement to re-cast (for comparison and consistency purposes) the 2005/06 figures as part of the closedown process.
- 3.5 The main significant changes (from the 2005/06 Accounts) that members will note when the statements are submitted for consideration are as follows: -

◆ Change in Format and Structure

Set out at Appendix A is a schedule showing the statutory structure and format of the Accounts for 2006/07. As members will note, the Financial Statements have been reclassified into Core Single-Entity Statements (including the new and amended statement requirements); Supporting Single Entity Financial Statements; and Group Accounts Financial Statements. The Core Statements are now grouped together at the front of the document and the notes to these are shown in one section rather than immediately after the statements themselves.

◆ **Abolition of Capital Financing Charges**

From 1 April 2006 the Council is no longer required to make a notional interest charge against service revenue accounts and as a consequence the requirement to maintain an Asset Management Revenue Account (into which the “below the line” capital accounting adjustment was made to net out the capital charges included in the service revenue accounts) has also been removed. Members will note that the 2007/08 Revenue Budgets take this into account.

◆ **Replacement of the Consolidated Revenue Account with a new “Income and Expenditure Account”**

This new statement excludes a host of accounting entries and adjustments that were key features of the Consolidated Revenue Account (see below) and will show the net surplus or deficit for the year before adjustments are made for the items that were previously included in the Consolidated Revenue Account. In reality, the Council will most likely see a significant deficit on its Income and Expenditure (I&E) Account each year as the net cost of services included in the I&E account will include items that do not impact directly in the Council tax due to statute bar – principally actual depreciation charges, deferred charges and FRS 17 adjustments, plus appropriations to and from earmarked funds. These will be adjusted in a new statement that is to be included (see below).

◆ **A New Statement of Movement on the General Fund Balance**

This statement will include all the entries that are required by statute and non-statutory proper practices to be adjusted against the I&E Account surplus or deficit to give the “true” General Fund Council Taxpayer position – i.e. the position that would otherwise have been the case on the Consolidated Revenue Account. Significantly, this statement will need to record the profits and losses on the disposal of fixed assets and from 1 April 2007 onwards (impacting on the 2007/08 accounts) the Councils asset management register will need substantial amendment, alteration and improvement in order to track these surpluses and deficits based on their historic costs and subsequent revaluation movements.

◆ **Replacement of the Statement of Total Movement in Reserves with a New Statement of Total Recognised Gains and Losses**

This new statement will effectively reconcile the opening and closing balance sheet values i.e. the change in the net worth of the authority in year and will bring together both the movement in reserves and balances and the change in asset values, taking into account any additions, revaluations and disposals and associated surpluses or losses on those disposals of assets.

◆ **Statement of Internal Control**

2006/07 is likely to be the last year the Council has to prepare this statement as the S.o.R.P 2007 is likely to replace this with a new Governance Report / Statement. This is in response to concerns within the Audit Commission that the Statement of internal Control in many authorities is still to finance related. The City Council is not one of these authorities and the arrangements it has in place

3.6 Whilst not exhaustive the above changes represent the major significant areas that members should be aware of at this stage. It is important to note that all the changes implemented will be (wherever possible) clearly explained / contextualised within the Statement of Accounts when these are prepared and submitted for consideration. Officers have and will continue to work closely with the external auditor during the course of preparing the accounts to ensure that the (often) technical accounting treatment changes are properly and accurately implemented and explained.

4. CONCLUSIONS

- 4.1 The 2006/07 Accounts will be substantially different from the 2005/06 Statements and there are a number of “technical” accounting adjustments and changes that will need to be actioned within the accounts this year if the City Council is to receive an un-qualified audit opinion and maintain the very high standards set in the production of the 2005/06 Accounts.

5. RECOMMENDATIONS

- 5.1 That members note the above changes to the accounting format, structure and content in advance of receipt of the draft Statement of Accounts for 2006/07.

NEW ORDER OF STATEMENTS

Explanatory Foreword

Statement of Accounting Policies

Core Single-Entity Financial Statements

- ◆ Income and Expenditure Account (new)
- ◆ Statement of Movement on General Fund Balance (new)
- ◆ Statement of Total Recognised Gains and Losses (new)
- ◆ Balance Sheet (renamed and slight presentation amendments)
- ◆ Cash Flow Statement

Notes to the Core Single-Entity Financial Statements

Supplementary Single-Entity Financial Statements

- ◆ Housing Revenue Account and HRA Reconciling Statement
- ◆ The Collection Fund

Notes to the Supplementary Single-Entity Financial Statements

Group Accounts Core Financial Statements

- ◆ Income and Expenditure Account (new)
- ◆ Balance Sheet (renamed and slight presentation amendments)

Notes to the Group Accounts Core Financial Statements

Statement of Internal Control

S151 Certification of the Accounts

External Auditors Report
