

Audit Summary Report

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March 2008

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# **Audit Committee Progress Report**

**Durham County Council**

**Audit 2007/08**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

### **Copies of this report**

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## Introduction

- 1 This report provides a summary to inform the Audit Committee of progress on the audit. We will update the report for each Audit Committee meeting.
- 2 The report also informs the Audit Committee of other matters of interest.
- 3 To assist Audit Committee members with their understanding of external audit, we have previously copy of the following Audit Commission publications.
  - Statement of Responsibilities of auditors and of audited bodies.
  - Code of Audit Practice 2005 for local government bodies.

These are available on the external website [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) or alternatively can be provided upon request.

## 2006/07 Audit

- 4 The 2006/07 audit is now complete other than the 2006/07 Annual Audit letter which has now been drafted; the final due to be issued by March 2008 so that Inspection activities can be taken into account. Appendix 1 provides a summary of reports issued during 2006/07.

## 2007/08 Audit

- 5 We agreed our 2007/08 audit plan with senior officers in March 2007. This plan covers the audit as set out in Code of Audit Practice.
- 6 We are continuing to plan and undertake our interim audit work which includes an assessment of the Council at an organisational and systems level. Our interim work focuses on the key controls in the systems that have a major input to the annual accounts. By doing this, where appropriate we reduce the substantive testing that we need to do during the audit of the financial statements in July to September 2008.
- 7 Details of the timetable and other information for each of the main audit outputs covered by the 2007/08 audit are set out in Appendix 2.
- 8 The main issue arising from interim work to date relates to weaknesses in some payroll controls which were brought to our attention late last year. This related to a £2.9m overpayment of expenses; there was no financial impact arising from this overpayment as it was reversed immediately. We note the Treasurer has taken action to ensure that there have been no similar errors and that work is planned to review the current adequacy of key controls within the payroll system. There will be some impact upon our testing strategy; essentially we will not place reliance on any key control relating to review of exception reports and seek other assurance over payroll figures.

- 9 We have also issued a draft supplementary report on bank reconciliations as part of our interim work. Bank reconciliations are now being completed promptly as required with some scope remaining for further improvements.

## 2008/09 Audit Plan

- 10 The 2008/09 Audit Plan is currently being drafted and will be presented to members of the Cabinet and Audit Committees in due course.

## Other work in the Council including Inspection work - Corporate Assessment

- 11 Recent inspection activities include the publication of the Corporate Assessment in February 2008.
- 12 The detailed report can be found on our external website. It concludes that the Council is performing well. Strong managerial leadership, strong partnership working in most areas and a clear focus on value for money are delivering improved outcomes for local people. Politicians are working effectively within local communities, but strategic community leadership is inconsistent.

## Other developments including publications

- 13 The Audit Commission has published the following reports that are relevant to the Committee's role within the Council. The reports are available from the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk). Key messages are set out below and include:
  - **'CPA The Harder Test - Scores and Analysis of Performance in Single Tier and County Councils 2007 (February 2008)'**: The majority of councils are delivering a high level of services to local people, with four out of five offering a three or four star standard, according to the 2007 Comprehensive Performance Assessment (CPA).
  - **'In the Know' (February 2008)**: This paper aims to encourage people to think about the information they use whenever they make decisions. It has examples, drawn from many different sources, of how information has been used in improving public services. It also describes how the Commission is reviewing the way that information is generated, presented and used in making decisions.

- **'Positively Charged: Maximising the Benefits of Local Public Service Charges' (January 2008):** this report examines the contribution made by charging to council finances, and how decisions on charging can support other strategic objectives for local government. The report concludes that although charging provides £11 billion a year to local government funds, it receives far less attention than it deserves. Most councils believe that they do not use charging to its full potential. The report discusses how councils can improve their approach and communicate better with councillors and the general public about the purposes of charging. It also provides a number of case studies demonstrating notable practice.
- **'Summary of Use of Resources Scores 2007' (January 2008).**
- **'National Schools Survey 2007' (January 2008):** The Audit Commission's School Survey captures schools' perceptions of their council's services and the services provided locally for children and young people. The school survey is completed by the headteacher who is encouraged to consult other staff and governors. The survey offers schools the opportunity to influence the work of their council and its partners as well as the opportunity to feed into the inspection of their council. The detailed results of the survey are used by councils in order to assess and improve their services.

The above extracts do not include Audit Commission reports relating to other public sectors.

## **Audit Committee responsibility for preventing and detecting fraud**

- 14 External audit work under the Code of Audit Practice is subject each year to a range of independent reviews for the purposes of quality assurance. An issue raised in these reviews has concerned how auditors demonstrate compliance with International Standard for Auditing (UK and Ireland) 240 (ISA 240) 'The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements'.
- 15 Under the Standard, the primary responsibility for preventing and detecting fraud rests with both management and 'Those charged with governance', which we consider to include the Audit Committee in this context. The Standard views fraud in two ways, as either:
  - the intentional misappropriation of the Council's assets (cash, property, etc.); and
  - the intentional manipulation or misstatement of the financial statements.
- 16 The Standard requires us to obtain an understanding of how the Audit Committee exercises oversight of management's processes for identifying and responding to the risks of fraud and the internal controls established to mitigate them. We must obtain written representations to properly discharge our responsibilities under ISA+240, and are making similar enquiries of management and Internal Audit.

- 17 Issues the new Audit Committee may wish to consider in terms of how they obtain assurance include:
- How does the Audit Committee assess the risk that the financial statements may be materially misstated due to fraud?
  - Is the Audit Committee aware of the management’s process for identifying and responding to the risks of fraud generally and specific risks of misstatement in the financial statements?
  - Is the Audit Committee aware of the arrangements in place for management to report about fraud to the Audit Committee?
  - Is the Audit Committee aware of the arrangements management have in place, if any, for communicating with employees, members, partners and stakeholders regarding ethical governance and standards of conduct and behaviour?
  - Does the Audit Committee have knowledge of actual or suspected fraud, and if so is it aware of what actions management is taking to address it?
  - What arrangements are in place for the Audit Committee to oversee management arrangements for identifying and responding to the risks of fraud and the establishment of internal control?

## **Durham County Council Pension Fund**

- 18 There are no issues arising to date from our work on the Pension fund.

## **Changes to the Audit Plan**

- 19 We prepared our initial audit plan in March 2007 for fee purposes. The audit planning process for 2007/08, including the risk assessment will continue as the year progresses. The information and fees in the audit plan will be kept under review and updated as necessary. If required, we will prepare a supplementary opinion plan under International Standards on Auditing (United Kingdom and Ireland) 300.
- 20 The above standard requires us to:
- identify the risk of material misstatements in your accounts;
  - plan audit procedures to address these risks; and
  - ensure that the audit complies with all relevant auditing standards.
- 21 We will therefore consider the additional risks to the current opinion audit and review the estimated fee for the opinion audit to ensure we remain satisfied that the original fee estimate is appropriate and no adjustment is required to the fee.

## Appendix 1 – Audit 2006/07

### Position as at 3rd March 2008

**Table 1**

<b>Planned output, as agreed in Audit Plan</b>	<b>Expected completion date</b>	<b>Final report issued</b>	<b>Comment</b>
Audit Plan	March 2006	March 2006	
Best Value Performance Plan statutory report	December 2006	November 2006	Separate non-statutory report also issued.
Opinion audit plan	January 2007	Not applicable	No supplementary plan issued.
Review of Internal Audit	March 2007	July 2007	
Your Business @ Risk	June 2007	May 2007	Survey of officers.
Review of new payroll/HR system and project management arrangements	June 2007	September 2007	Draft issued August 2007.
Interim audit memorandum	June 2007	Draft issued August 2007	Action plan has been discussed but final report not yet issued.
Report on financial statements to those charged with governance	September 2007	September 2007	

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Opinion on the financial statements	September 2007	September 2007	
VfM conclusion	September 2007	September 2007	
Final Accounts memorandum	October 2007	December 2007	
Setting High Ethical Standards	December 2007	Draft issued November 2007	Report presented to Standards Committee.
Local performance work - health inequalities (cross-cutting)	TBA		October workshop for local public sector bodies to inform next steps.
Use of resources	December 2007	December 2007	Scores released December 2007.
Certification of grants and returns	March 2008	See right	Report will be issued after all 2006/07 grants and returns audited.
Annual Audit Letter	March 2008	Draft issued March 2008	Draft only Finalise end March.

## Appendix 2 – Audit 2007/08

### Position as at 3rd March 2008

**Table 2**

<b>Planned output, as agreed in Audit Plan</b>	<b>Expected completion date</b>	<b>Final report issued</b>	<b>Comment</b>
Audit Plan	March 2007	March 2007	
Corporate Assessment	February 2008	February 2008	
Opinion audit plan	January 2008	See right	Not required.
Review of bank reconciliations	March 2008	February 2008 - draft only	
Review of ORACLE project management arrangements	September 2007	September 2007	
Interim audit memo	June 2008		
Report on financial statements to those charged with governance	September 2008		
Opinion on the financial statements	September 2008		
VfM conclusion	September 2008		
Final Accounts memo	October 2008		
Local performance work - health inequalities (cross-cutting)	TBA	See right	October workshop for local public sector bodies to inform next steps
Use of resources	December 2008		

<b>Planned output, as agreed in Audit Plan</b>	<b>Expected completion date</b>	<b>Final report issued</b>	<b>Comment</b>
Certification of grants and returns	March 2009	See right	Report will be issued after all 2006/07 grants and returns audited.
Annual Audit Letter	March 2009		