

24 February 2009



Internal Audit interim progress report

Report of the Head of Internal Audit and Risk Management

Purpose of the report

1. The purpose of this report is to advise Members on the work undertaken by Internal Audit between 01 April 2008 and 31 December 2008 and provide detail on the progress made against the annual audit plan for the financial year 2008/09. This is the third of the quarterly progress reports prepared for Members during the year.
2. The report also provides an update on the progress made in implementing recommendations agreed with managers relating to 2007/08.

Progress made against the annual audit plan

3. 124 of the 259 Internal Audit assignments scheduled for the year have been progressed with managers to reporting stage during the nine month period under review, work in a further 75 areas has started. During the year it has been necessary to amend the number of days contained within the original plan in order to account for variations that have arisen within the County Council's staffing levels which have been offset against additional resources being released from two of the District Councils. The result of these adjustments is a marginal net increase of 3 available days. It has also been necessary to transfer 250 days of resource out of Other Corporate Activities to those schools seeking to achieve the Financial Management Standard (FMSiS) in order to manage the relative demand levels being encountered in those specific areas. A summary of the work undertaken and revisions made to the 2008/09 audit plan is included for Members in Appendix 2.
4. Internal Audit, working with responsible managers, has also confirmed as indicated in Appendix 3, that 837 of the 1,226 recommendations accepted by managers within 2007/08 have been implemented. In addition 40 recommendations have been revised and re-issued and 41 now marked as redundant.
5. Responses to 4 reviews containing a total of 72 recommendations are still awaited. Detail of the coverage of these reviews and the current position in seeking a response is included for Member consideration as Appendix 4.

Governance

6. The Annual Governance Statement (AGS) action plan has now been progressed to a point where attention can begin to be focussed toward the production of the 2008/09 AGS. Internal Audit will look to agree how evidencing of the Authority's governance arrangements can best be undertaken.
7. The Authority has a requirement under the Accounts and Audit (Amended) (England) Regulations 2006 to review the effectiveness of its system of internal audit each year. The review helps to inform a consideration of the system of internal control, which in turn supports the AGS.
8. Members of the Audit Committee approved a report from the Head of Internal Audit that considered the above matter at its meeting on 06 June 2008. Internal Auditors are considering new guidance in this area provided by CIPFA's Audit Panel with the aim of undertaking an effectiveness review for 2008/09. Whilst not prescriptive, the guidance does place an expectation upon the Authority to consider the effectiveness of key elements of the system which may include:
 - the process by which the control environment and key controls have been identified - the organisation's risk management system;
 - the process by which assurance has been gained over controls – its coverage of the key controls and key assurance providers;
 - the adequacy and effectiveness of the remedial action taken where there are deficits in controls, which will be led by the audit committee or its equivalent and implemented by management; and
 - the operation of the audit committee and the internal audit function to current codes and standards.
9. A report detailing the outcomes of this review will be presented to the Audit Committee at the end of March 2009 or earliest meeting convened thereafter.

Reporting of key observations

10. Our work has identified 11 new issues of high priority. Details of these issues split across the Council's Service areas are summarised below:

Adult and Community Services and Children and Young People's Services

(7 high priority issues)

- The high priority recommendations were all raised as part of the annual review of the Authority's compliance with Caldicott arrangements. Caldicott audits are information governance reviews in relation to client data (adults and children). Arrangements should be in place for ensuring that client data is handled confidentially and shared appropriately. The recommendations relate to access to, storage and sharing of confidential client data. This includes both manual and electronic data and the development and implementation of appropriate policies and procedures. Where policies are in place, users are not always fully

aware of their content. Ownership of each of the recommendations has been acknowledged at Service level and an action plan is in place to address them.

FMSiS – Schools

(4 high priority issues)

- There continues to be a small number of high priority issues raised from our review of FMSiS within schools, mainly in relation to the operation of procedures covering areas of budgeting, income and petty cash, and ensuring adherence to appointment procedures. Working with the Children and Young People's Services, School and Governor Support Team, information papers are circulated regularly to Governing Bodies in order to promote best practice and provide an insight on those areas where most recommendations are raised.

Performance against targets

11. In the period under review Internal Audit delivered 1,160 productive audit days, equivalent to 67% of the total days planned. 106 out of the 118 reports issued were delivered within fifteen working days, which meets exactly our 90% target. In reporting on performance against our effectiveness targets, 100% of recommendations made have been accepted and with 59 customer satisfaction returns received, out of 96 issued thus far, the rating of Internal Audit stands at 1.26 (very good = 1, good = 2, satisfactory =3, poor =4).

Recommendation

12. Members are recommended to note:
 - i. the progress made in relation to the 2008/09 Audit Plan to date,
 - ii. the progress made by managers in implementing recommendations made in relation to the 2007/08 audit plan and the current position of the 4 reviews where a response is still awaited,
 - iii. the proposals in relation to governance,
 - iv. the emerging issues of high priority.

Background Papers - **Audit Files & Working Papers**

Contact: Stephen Carter, Audit Manager Tel: 0191 3833159

Appendix 1: Implications

Local Government Reorganisation

(Does the decision impact upon a future Unitary Council?)

No

Finance

There are no direct financial implications arising for the Council as a result of this report, although we aim through our audit planning arrangements to review core systems in operation and ensure through our broad programme of work that the Council has made safe and efficient arrangements for the proper administration of its financial affairs.

Staffing

None

Equality and Diversity

None

Accommodation

None

Crime and disorder

None

Sustainability

None

Human rights

None

Localities and Rurality

None

Young people

None

Consultation

None

Health

None

Appendix 2 : Summary of work undertaken 2008/09

Key Indicators of Performance

Service	No. Of Reviews	Planned Days	Revised Days	Actual Days	Critical	High	Medium	Low	Total	Accepted	Awaited	Rejected	Implemented	Redundant
Core Systems	18	227	227	129.3	1	31	13		45	28	17		1	
Adult and Community Services*	2	0	12	10.0		7	11	2	20	3	17			
Children & Young People's Service	6	0	12	8.3										
FMSiS - Schools	212	500	750	656.3		43	1,177	769	1,989	1,679	297		1,031	13
Customer Services	5	32	35	22.4		3	3	0	6	5	1			
Pension Fund	3	30	30	11.7		3		1	4	3	1			
External Bodies	1	40	40	21.8										
Other Corporate Activities	21	895	621	300.2	1	22	6	1	30	30				
	259	1,724	1,727	1,160	2	109	1,210	773	2,094	1,748	333		1,032	13
Non Audit Work														
CPA				10.3										
LGR				36.6										
				46.9										

*Note: Includes a review of Caldicott arrangements covering Adult and Community Services, Children and Young Peoples Services and Customer Services

Other Indicators of Performance

% of reports issued within 15 working days 90% (106 out of 118)
 Customer Satisfaction 1.26 (59 out of 96 questionnaires returned - 61%)

Appendix 3 : Summary of 2007/08 recommendations implemented

Key Indicators of Performance

Service	Recommendation	Priority				Total	Status			Action		
		Critical	High	Medium	Low		Accepted	Awaited	Rejected	Implemented	Reissued	Redundant
Core Systems		0	13	33	15	61	60		1	35		1
Adult and Community Services		0	54	116	39	209	200	8	1	141		6
Chief Executive's Office		1	3	2	2	8	8			6		1
Children & Young People's Services		0	47	136	34	217	179	38		141		12
FMSiS - Schools		0	90	437	34	561	545	16		401	20	16
Corporate Services		0	1	15	2	18	18			12		
Customer Services		0	34	43	17	94	93		1	32	1	1
Environment		2	17	22	12	53	51		2	34		
Pension Fund		0	9	3	0	12	12			9		
Service Direct		0	1	2	0	3	3			3		
External Bodies		0	5	15	3	23	23			19		4
Other Corporate Activities		5	22	13	4	44	34	10		4	19	
		8	296	837	162	1,303	1,226	72	5	837	40	41

Appendix 4 : Detail of 2007/08 recommendations outstanding

Review Area	Recommendations Made	Review Objectives	Service Responsibility	Latest Position
Schools Capital Investment Plan	High 23 Medium 15 Low Total 38	A review of capital spend on major projects within Children and Young Peoples Services that considered the processes for preparing initial capital budgets to ensure that original estimates are realistic; project management arrangements to ensure all roles and responsibilities are clearly defined, understood and applied in practice and whether client and end users are fully involved in the development of the project from inception to completion.	Children & Young People's Services / Corporate Services	Following meetings with responsible Service representatives, a revised report has been issued. A detailed response to all issues identified within the report action plan will be provided once the 4th tier appointments under the Head of Assets are confirmed, anticipated to be in April/May 2009.
Value for Money	High Medium 7 Low 3 Total 10	A review that assessed the Authority's approach to ensuring that value for money (vfm) is incorporated in its corporate and service level planning; is monitored in its performance management framework; has developed a strategy to deliver value for money and its contribution towards the Use of Resources assessment.	Chief Executive's Office / County Treasurer	Whilst a formal response to the report has been delayed, progress has been made in actioning a number of the recommendations made. A detailed response of actions taken is to be provided by 28 February 2009.
Libraries Learning & Culture's relocation to Spennymoor	High 8 Medium Low Total 8	A review of the Durham Learning Resource Service's move from County Hall to new premises based at Spennymoor that considered the acquisition of the proposed site, from identification through to purchase and refurbishment of premises in order to identify potential improvements to corporate practice.	Adult and Community Services / Corporate Services	Discussions have been held with responsible managers and a detailed response to all actions raised is to be provided by 28 February 2009.
Primary School working towards the Financial Management Standard	High 6 Medium 8 Low 2 Total 16	A review in our role as independent assessors of the financial management arrangements of the school and determination as to whether the school has achieved the requirements of the Financial Management Standard in Schools as required by the Department for Children, Schools and Families (DCSF).	Children & Young People's Services	The findings contained within the internal control report have been disputed by the school. A further visit to review the school's portfolio of evidence has been arranged for 10 March 2009.