
AUDIT SERVICES ANNUAL AUDIT PLAN 2010/11 – PROGRESS REPORT

SUMMARY REPORT

Purpose of the Report

1. To provide Members with a progress report against the 2010/11 Annual Audit Plan in accordance with Audit Services' role and terms of reference.

Summary

2. The report outlines progress during the first five months of the year on audit assignment work, consultancy/contingency activity and performance indicators.
3. Audit assignment work has resulted in a full assurance opinion for Treasury Management and substantial assurance opinions for the Corporate Income System (Departmental Controls) and Independent Sector Payments. A limited assurance opinion resulted from the audit review of the Dolphin Leisure Centre. In this respect management have responded positively to the audit findings and an action plan has been agreed to deliver the required improvements.
4. In terms of consultancy/contingency activity much of the focus has been on special investigation work and with regard to performance indicators the position is positive.

Recommendation

5. It is recommended that the progress report against the 2010/11 Annual Audit Plan be noted.

Reasons

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

**Brian James
Head of Corporate Assurance**

Background Papers

- (i) Audit Services' Role and Terms of Reference.
- (ii) Audit Assignment Executive Summaries.
- (iii) Audit Advice and Consultancy Sheets

Brian James : Extension 2140

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

MAIN REPORT

Information and Analysis

7. The Annual Audit Plan for 2010/11 was approved by the Audit Committee in March 2010 (Minute A43/March/10) and this report covers progress made during the first five months of the year i.e. to 31 August 2010.
8. The report should be considered in the context of fulfilling the function to monitor the adequacy and effectiveness of the Council's internal control environment and the Internal Audit service provided.
9. In order to portray progress three Appendices are attached:-
 - (a) **Appendix A** – summarises the outcome from Audit Assignments undertaken and outlines those in progress.
 - (b) **Appendix B** – details some of the more significant outputs from consultancy/corporate arrangements work/contingency activity carried out.
 - (c) **Appendix C** – states Audit Services' Performance Indicators and gives results or year-end projections.
10. The results of audit assignments carried out to 31 August 2010 are shown at Appendix A. The audit of Treasury Management resulted in a full assurance opinion and the audits of Corporate Income System (departmental controls) and Independent Sector Payments resulted in substantial assurance opinions. However a limited assurance opinion resulted from a review of the Dolphin Leisure Centre where issues were identified with control of income linked principally to the functionality of the current version of the Leisure Management computerised system. Management have responded positively to the audit findings and agreed an improvement action plan to address the matters raised.
11. In line with good practice, at an appropriate time, Audit Services follow up with Managers progress on implementation of audit recommendations agreed in audit reports. It is pleasing to report generally no matters of concern on this point both from an internal and external audit perspective.
12. The Section has worked on a number of consultancy projects identified in the original Audit Plan and with recognised flexibility some have been replaced by others at the request of individual Directors. Some of the more significant outputs from consultancy, corporate arrangements work and contingency activity carried out are identified in Appendix B. This appendix reflects that the focus of much of the audit effort has been on special investigation work.
13. In addition, work has continued to further implement/develop use of audit management software to streamline the audit process.
14. The position is positive upon Key Performance Indicators (Appendix C) with operational targets likely to be achieved.

15. The Unit has also responded to routine requests from Department's for advice and guidance on operational matters.

Outcome of Consultation

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

AUDIT SERVICES SECTION

SUMMARY OF AUDIT ASSIGNMENTS UNDERTAKEN FOR THE FIRST FIVE MONTHS OF 2010/11

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
Corporate Services	Corporate Income System – Departmental Controls	Substantial		
	Treasury Management	Full		
Community Services	Dolphin Leisure Centre	Limited	Issues identified with control of income linked principally to the functionality of the current version of the Leisure Management computerised system.	Management have responded positively to the audit findings and an action plan has been agreed to facilitate the improvements required.
	Independent Sector Payments	Substantial		
Chief Executives	European Grants	N/A	Opinion not given as work non standard appraisal. Audit of grant expenditure completed in accordance with grant terms and conditions.	
Corporate Core	Data Quality /Performance Indicators		Opinion not given as work non standard appraisal. Audit work focused on: i) Drafting the format and content of a third party data quality assurance statement with a neighbouring local authority in preparation for formal	

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
			agreement with and future use by significant partner organisations. ii) supporting departments in the rollout of a data quality 'self audit regime'	

OPINION	DEFINTION
Full Assurance	All controls in place and operating effectively – the system will achieve its objectives.
Substantial Assurance	The majority of controls in place and operating effectively although some control improvements required- the system should achieve its objectives.
Limited Assurance	Certain important controls inadequate or in place but operating ineffectively – there is a risk that the system may not achieve its objectives.
Minimal Assurance	The majority of controls weak, not present or failing – it is likely that the system will not achieve its objectives.

SUMMARY OF AUDIT ASSIGNMENTS IN PROGRESS

Department	Audit Assignment	Stage of Audit
Community Services	Capital Schemes Review of Project Management Methodology	fieldwork ongoing
	Creditors –Open Contractor	fieldwork ongoing
	Dolphin Centre Catering	fieldwork ongoing
	Supported Living	fieldwork concluded
Corporate Services	Sales Ledger	fieldwork ongoing
	VAT	fieldwork ongoing
	Sickness Absence	fieldwork ongoing
Children’s Services	Schools Finance Support Team	fieldwork ongoing
	Special Education Services	scoping
	9 x primary schools plus FMSiS reassessment	scoping and timing of audits agreed with Head Teachers
Corporate Core	Inventories	scoping
	Mayors Charity Fund	audit of accounts nearing conclusion

**Summary of the More Significant Outputs from Consultancy/Corporate Arrangements
Work/Contingency Activity Undertaken for the first 5 months of 2010/11**

Department	Description	Output
Corporate Services	Darlington and Stockton Partnership	Work undertaken with colleagues in Stockton Internal Audit and the respective External Auditors, PwC and the District Audit Service, to further develop the approach to both the internal and external audit of the Partnership. In addition, work also undertaken with Xentrall senior management to develop effective development groups for individual service areas within Transactional Finance. Further support is also being undertaken in relation to the feasibility of a new income system for Darlington/Stockton.
	Special Investigation	Undertaking an investigation following a disclosure under the confidential reporting policy.
Core Corporate	National Fraud Initiative (NFI)2010	Preparations including confirmation of datasets, submission of fair processing return for NFI 2010 completed in accordance with Audit Commission timescales in readiness for the submission of identified data extracts in early October 2010
	Anti Fraud & Corruption Arrangements	Content of next edition of Fraud Newsletter being finalised for issue Autumn 2010. Online fraud referral form being developed in conjunction with housing benefits staff and web team. Annual Fraud Survey 2009/10 completed as required by the Audit Commission
	Annual Governance Statement	Annual Governance Statement drafted in conjunction with the Management Group responsible and approved by the Audit Committee in June 2010.
	Annual Review of Internal Audit Effectiveness	Participated in the independent review of internal audit effectiveness required by the Accounts and Audit Regulations 2006. Outcome of the review, that concluded the Council has an effective system of internal audit, was reported to the Audit Committee in June 2010.
Community Services	Special Investigation	Investigation undertaken in respect of the submission of a significant number of potential bogus invoices. The internal investigation has been completed and the case referred to the Police. Police investigations are continuing.

Department	Description	Output
	Special Investigation	Investigation undertaken into the engagement of sub contractors. The investigation remains ongoing.
	Special Investigation	Continued to assist with an investigation concerning a significant cash discrepancy within Adult Services The case went before Teesside Crown Court in August with the defendant pleading guilty. Sentencing has yet to be determined.
	Special Investigation	Providing support to the police in respect of a significant cash discrepancy identified during the course of an audit review. The case remains ongoing.
	Special Investigation	Investigation undertaken in respect of issues identified by management in relation to the administration of an imprest account at an establishment. The investigation has been concluded and has resulted in systems and procedures being strengthened accordingly.
Children's Services	Special Investigation	Investigation undertaken in respect of an allegation of the submission of bogus expenses claims. The investigation has proved inconclusive and although no further action is to be taken, steps have been taken to strengthen the monitoring and authorising system in place.
	Special Investigation	Investigation undertaken in relation to a significant banking shortfall in a primary school. The investigation has proved inconclusive and although no further action is to be taken, steps have been taken to strengthen the internal reconciliation, banking and management monitoring arrangements.
	Contract Monitoring PFI Scheme	Work ongoing to assist and support the establishment of an integrated contract monitoring regime.
	Contact Point	Completion of 2009/10 annual compliance return for the DfE. Closure/decommissioning work completed following disbanding of the system in August 2010.

AUDIT SERVICES – KEY PERFORMANCE INDICATORS 2010/11

Indicator	Target for Year	Outcome/Year End Projection
1. Use of Resources External Audit Assessment Governing the Business Theme – the Council manages its risks and maintains a sound system of internal control.	3/4	Inspection regime abolished
2. Outcome from annual review of internal audit effectiveness.	Effective	Effective
3. Days per auditor as per CIPFA Benchmarking Statistics for Unitary Authorities.	184 Top Quartile	On target to achieve
4. Cost per audit day as per CIPFA Benchmarking Statistics for Unitary Authorities	£295 Second bottom quartile	On target to achieve
5. Customer satisfaction rating received from client surveys following the completion of each audit assignment (where 1 = Very Poor to 5 = Very Good)	Average 4	On target to achieve
6. Maintain ISO Quality Accreditation	Achieve	On target to achieve
7. % of planned pre determined audit assignments completed within the year relative the agreed audit plan	92%	92%
8. % of audit recommendations accepted by client, with a priority of high or medium priority	100%	100%
9. % of agreed audit assignments carried out within the year on core financial systems	100%	100%
10. % of audit assignments completed within 10% of the planned time allocated for each assignment	92%	92%
11. % of draft audit reports for each audit assignment completed within 7 working days of the exit meeting	100%	100%
12. % of final reports for each audit assignment issued within 3 working days of receipt of response to draft	100%	100%
13. % of agreed consultancy project work concluded to the satisfaction of the client manager	100%	100%
14. Maintain service costs within budget	Achieve	On target to achieve
15. % of workforce receiving PDRs	100%	100%
16. % of planned audit assignments where the client was given 5 working days notice of, or agreed a timescale for, the commencement of the audit	100%	100%