
AUDIT SERVICES ANNUAL AUDIT PLAN 2011/12 – PROGRESS REPORT

SUMMARY REPORT

Purpose of the Report

1. To provide Members with a progress report against the 2011/12 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 substantial assurance opinions in respect of the Corporate Income System, Car Parking, Civic Theatre Box Office, Stressholme Golf Course and one primary school. Limited assurance opinions resulted from the audit reviews of Debit and Credit Card Processing (PCI-DSS), Civic Theatre Front of House and Stressholme Clubhouse. In these instances management have responded positively to audit findings and an action plan has been agreed to deliver the improvements required.
4. In relation to Audit Services' key performance indicators the position is positive.

Recommendation

5. It is recommended that the progress report against the 2011/12 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.

Brian James : Extension 2140

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| 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. |
| Carbon Impact | There is no specific carbon 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 2011/12 was approved by the Audit Committee in April 2011 (Minute A45/April/11) and this report covers progress made during the first five months of the year i.e. to 31 August 2011.
 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 2011 are shown at Appendix A. The audits of Corporate Income System (departmental controls), Car Parking, Civic Theatre Box Office, Stressholme Golf Course and one primary school resulted in substantial assurance opinions. However limited assurance opinions resulted from a review of Debit and Credit Card Processing arrangements linked principally to outstanding issues in respect of completion of the PCI-DSS Standard; Civic Theatre Front of House where issues were identified with the need to undertake stock /income evaluations on confectionery/ice cream sales, management control of processed till voids and refunds and the standard of financial record keeping; and Stressholme Clubhouse where issues were identified with management monitoring of stock/consumption discrepancies, till procedures and security arrangements. In each case 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.
 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.
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15. The Unit has also responded to routine requests from Groups 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 2011/12

| Group | Audit Assignment | Assurance Opinion | Where Assurance Opinion Less Than Substantial | |
|-----------|------------------------------|---|---|--|
| | | | Audit Comment | Management Response |
| Resources | Corporate Income System | Departmental Controls – Substantial Plastic Card Industry Data Security Standard - Limited | Progress continues to be made in respect of achieving compliance with the PCI Standard. However issues remain in respect of the Culture booking systems where new upgrades to the software are required before compliance can be sought | The position is to be reviewed upon completion of the options review of Cultural Services to include consideration of system upgrade or to seek a hosted solution from the supplier. |
| Place | Car Parking Civic Theatre | Substantial Box Office – Substantial Front of House - Limited | Issues identified with the need to undertake stock/income evaluations on confectionery/ice cream sales, management control of processed till voids and refunds and the standard of financial record keeping. | Management have responded positively to the audit findings and an action plan has been agreed to facilitate the improvements required. |
| | Stressholme – Golf Course | Substantial | | |
| | Stressholme – Club House | Limited | Issues identified with management monitoring of stock/consumption | Management have responded positively to the |

| Group | Audit Assignment | Assurance Opinion | Where Assurance Opinion Less Than Substantial | |
|-----------------------|---------------------|-------------------|---|--|
| | | | Audit Comment | Management Response |
| | | | discrepancies, till procedures and security arrangements. | audit findings and an action plan has been agreed to facilitate the improvements required. |
| | European Grants | N/A | Opinion not given as work non standard appraisal. Audit of grant expenditure completed in accordance with grant terms and conditions. | |
| People | Primary School x 1 | Substantial | | |
| Corporate Core | Mayors Charity Fund | N/A | Annual audit of accounts completed. | |

| 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

| Group | Audit Assignment | Stage of Audit |
|-----------------------|-----------------------------------|-----------------------|
| Resources | Procurement | Fieldwork ongoing |
| | Estates | Fieldwork ongoing |
| Place | Contract Audit | Fieldwork ongoing |
| | Administration of Client Finances | Fieldwork ongoing |
| | Waste Management Contract | Fieldwork ongoing |
| | Street Scene | Audit Scoped |
| Corporate Core | Grants | Fieldwork ongoing |

**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 |
|-----------------------|---|---|
| Core Corporate | Annual Review of Internal Audit Effectiveness | Participated in the independent review of internal audit effectiveness required by the Accounts and Audit (England) Regulations 2011. Outcome of the review, that concluded the Council has an effective system of internal audit, was reported to the Audit Committee in July 2011. |
| | Annual Governance Statement | Annual Governance Statement drafted in conjunction with the Management Group responsible and approved by the Audit Committee in July 2011. |
| | National Fraud Initiative (NFI)2010 | Potential matches accessed from late January 2011 and investigation work continues. Transport and residential homes matches concluded with no frauds identified. Investigation of Housing Benefit, Payroll, Creditors and Blue Badge matches remains ongoing. Completion of the single person discount matches resulted in some 132 discounts valued at approximately £32,400 being removed. In addition, a further 325 discounts were earmarked for further investigation in conjunction with the DWP. |
| | Anti Fraud & Corruption Arrangements | Content of next edition of Fraud Newsletter being finalised for issue Autumn 2011. |
| | Transformation Projects | Assistance provided on the Procure to Pay, Financial Assessments and Housing Repairs projects. Assistance provided in the scoping of the Corporate Income System review with a view to subsequent active participation. Audit Manager to 'Team Lead' on the Sales Ledger review. |
| Place | Special Investigation | Investigation undertaken into the engagement of sub contractors. The investigation has been referred to the police and remains ongoing. |
| | Special Investigation | Investigation being undertaken following disclosures under the Confidential Reporting Policy in relation to potential breaches of the Employee Code of Conduct. |
| | Special Investigation | Preparation undertaken for a scheduled court case following a matter previously referred to the police. |
| Resources | Fine Income (Court Costs) | Providing assistance to streamline the current processes for the recording, coding and monitoring of court cost income received by the Council. |

AUDIT SERVICES – KEY PERFORMANCE INDICATORS 2011/12

| Indicator | Target for Year | Outcome/Year End Projection |
|---|--------------------------------|-----------------------------|
| 1. Outcome from annual review of internal audit effectiveness. | Effective | Effective |
| 2. Days per auditor as per CIPFA Benchmarking Statistics for Unitary Authorities. | 186 Top Quartile | On target to achieve |
| 3. Cost per audit day as per CIPFA Benchmarking Statistics for Unitary Authorities | £288 Second bottom quartile | On target to achieve |
| 4. Customer satisfaction rating received from client surveys following the completion of each audit assignment (where 1 = Very Poor to 5 = Very Good) | Average 4 | On target to achieve |
| 5. Maintain ISO Quality Accreditation | Achieve | On target to achieve |
| 6. % of planned pre determined audit assignments completed within the year relative the agreed audit plan | 92% | 92% |
| 7. % of audit recommendations accepted by client, with a priority of high or medium priority | 100% | 100% |
| 8. % of agreed audit assignments carried out within the year on core financial systems | 100% | 100% |
| 9. % of audit assignments completed within 10% of the planned time allocated for each assignment | 92% | 92% |
| 10. % of draft audit reports for each audit assignment completed within 7 working days of the exit meeting | 100% | 100% |
| 11. % of final reports for each audit assignment issued within 3 working days of receipt of response to draft | 100% | 100% |
| 12. % of agreed consultancy project work concluded to the satisfaction of the client manager | 100% | 100% |
| 13. Maintain service costs within budget | Achieve | On target to achieve |
| 14. % of workforce receiving PDRs | 100% | 100% |
| 15. % 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% |