
AUDIT SERVICES ANNUAL AUDIT PLAN 2009/10 – PROGRESS REPORT

SUMMARY REPORT

Purpose of the Report

1. To provide Members with a progress report against the 2009/10 Annual Audit Plan in accordance with Audit Services' role and terms of reference.

Summary

2. The report outlines progress during the first eleven months of the year on audit assignment work, consultancy/contingency activity and performance indicators.
3. Audit assignment work undertaken since the last progress report in December 2009 has resulted in five substantial assurance opinions and one full assurance opinion. A split opinion resulted from the audit review of Payroll with the HR elements receiving a substantial opinion but the payroll element a limited opinion. However, management at Xentrall have responded positively to the audit findings and are to deliver the improvement required.
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 generally positive.

Recommendation

5. It is recommended that the progress report against the 2009/10 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

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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.
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 2009/10 was approved by the Audit Committee in March 2009 (Minute A38/March/09) and this report covers progress made during the first eleven months of the year i.e. to 28 February 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 28 February 2010 are shown at Appendix A. Since the last progress report in December 2009, audit work was carried out on the core financial systems of Local Taxation, Housing Rents, Children's Services Creditors and Payroll. The first three mentioned resulted in substantial assurance opinions. The latter received a split opinion with the HR elements receiving substantial but the payroll elements receiving limited, primarily due to the authorised signatory lists being substantially out of date. The list is maintained by Xentrall whose management have responded positively to the audit findings and are to deliver the improvement required.
11. In addition, since December 2009 audit assignments undertaken included Xentrall Contract Management Arrangements, the Education Village, two Primary Schools and two Nurseries. Xentrall Contract Management Arrangements, the Education Village, one Primary School and the two Nurseries received substantial audit opinions and one Primary School received a full assurance opinion. All educational establishments reviewed in the period also received an FMSiS pass.
12. 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 no matters of concern on this point both from an internal and external audit perspective.
13. 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.

14. In addition, work has continued to further implement/develop use of the new audit management software, MK Insight, to streamline the audit process.
15. The position is positive upon Key Performance Indicators (Appendix C). Under the Use of Resources Governing the Business theme for the Council manages its risks and maintains a sound system of internal control a score of 3 was achieved that equates to 'performs well, exceeds minimum requirements'. At this stage, it is anticipated that all operational targets will be achieved except that for completed audit assignments relative to the agreed Audit Plan where an outturn of 85% is anticipated against a target of 92%. This is explained by an instance of long-term sickness that began in December 2009, the granting of a request by an Audit Manager to work reduced hours and additional work required on special investigation cases previously referred to the police. The audit assignments that will not be completed have been included in the 2010/2011 Annual Audit Plan i.e. Street Scene, Transport, Building Maintenance, Schools Finance Support Team, Youth Service, Inventories and Data Set Reviews.
16. The Unit has also responded to routine requests from Department's for advice and guidance on operational matters.

Outcome of Consultation

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

AUDIT SERVICES SECTION

SUMMARY OF AUDIT ASSIGNMENTS UNDERTAKEN FOR THE FIRST 11 MONTHS OF 2009/10

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
Corporate Services	Corporate Income System	Limited	Issues identified in respect of the control of receipt books across the Authority and in respect of outstanding issues in relation to PCI compliance.	Management have responded positively to the audit findings and an action plan has been agreed to facilitate the improvements required.
	Car Parking –Administration Car Parking - Enforcement	Substantial Substantial		
	Creditors	Substantial		
	Local Taxation	Substantial		
	Payroll inc. Misc. Benefits	HR Elements – Substantial Payroll Elements - Limited	Issues in respect of the authorised signatory list maintained by Xentrall being significantly out of date.	Xentrall management have responded positively to the audit finding and a new DBC authorised signatory list is being prepared with a view to being ready at the commencement of April 10.
	Xentrall Contract Management Arrangements	Substantial		
	Information Governance Data Set review – Human Resource	N/A	Opinion not given as non standard appraisal. Departmental recommendations incorporated into the Payroll Audit above.	

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
			Corporate Recommendations reported to the ICT Security Manager to facilitate implementation.	
Community Services	Stressholme Catering	Limited	Improvements required in the control of confectionary sales, completion of prime financial records and the control of waste both in respect of bar and food.	Management have responded positively to the audit findings and an action plan has been agreed to facilitate the improvements required.
	Stressholme Golf Course	Limited	Issues identified in respect of the control of driving range income, control of memberships, performance issues with the Torex system, complimentary vouchers and contract monitoring arrangements.	Management have responded positively to the audit findings and an action plan has been agreed to facilitate the improvements required.
	Creditors (Cultural Services)	Limited	Issues identified in respect of the authorisation of invoices and purchase orders, poor BVPI8 performance and a lack of control in the classification of urgent payments.	Management have responded positively to the audit findings and an action plan has been agreed to facilitate the improvements required.
	Direct Payments	Substantial Assurance		
	Housing Rents	Substantial Assurance		
	Stores	N/A	Opinion not given as work non standard appraisal. Efforts concentrated on a review of systems, processes and controls to support the implementation of the new Open Contractor system due	

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
			to go live in April 10.	
Children's Services	Trusts and Funds	N/A	Accounts audited in accordance with Charity Commission guidelines. A satisfactory position was noted.	
	Creditors	Substantial		
	Education Village	Substantial Assurance & FMSiS pass		
	Secondary Schools plus FMSiS reassessment x 4	Substantial Assurance & FMSiS pass x 3 Full Assurance & FMSiS pass x 1		
	Primary Schools plus FMSiS Assessment x 3	Substantial Assurance & FMSiS pass x 2 Full Assurance & FMSiS pass x 1		
	Nursery Schools plus FMSiS Assessment x 2	Substantial Assurance & FMSiS pass x 2		
	Leaving Care Services	Limited	Inconsistent approach identified in respect of record keeping and certain authorisation. Procedural framework not reflective of current working practices. Improvements required in data security controls.	Management have responded positively to the audit findings and an action plan has been agreed to implement the necessary improvements including the move to an Integrated Children System that will support the streamlining of record keeping.

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
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	Local Area Agreement	N/A	Opinion not given as work non standard appraisal. Expenditure for 2008/09 verified in accordance with grant terms and conditions to enable the Director of Corporate Services to certify the grant statement and performance information verified to support claiming of the reward grant.	
	Data Quality/Performance Indicators	N/A	Opinion not given as work non standard appraisal. Efforts concentrated upon assisting with implementation of the Council's Data Quality Strategy together with completion of a self assessment and provision of evidence in support of the Data Quality element of the 2009 Use of Resources assessment that resulted in a score of 3 that equates to the Council performs well – exceeds minimum requirements..	
	Mayors Charity Fund	N/A	Annual audit of accounts completed.	
	Mobile Telephones – Administration of Contract and	Limited	Issues identified related to the need for a Corporate Policy	Management have responded positively to the

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
	associated usage		governing management and employee responsibilities including business case for new phones, control over phone locations in respect of leavers, transfers, etc.	audit report. The Central Procurement Unit is to take a report to the Efficiencies Board recommending the introduction of a Corporate Policy and addressing contract administration arrangements. A draft policy has been produced that is currently out to consultation.
	Petty Cash Imprests including Travel and Subsistence Payments	Substantial		

OPINION	DEFINITION
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
Corporate	Balance Sheet Management	Fieldwork commenced
	Environmental Health	Currently scoping
Community	Information Governance Data Set Review – Direct Payments	Fieldwork completed
	Adult Services - Contracting	Fieldwork commenced
	Grants	Fieldwork commenced
	Housing Benefits	Fieldwork commenced
Chief Executives	Transport	Fieldwork commenced
Children’s	Secondary School	Fieldwork complete

**Summary of the More Significant Outputs from Consultancy/Corporate Arrangements
Work/Contingency Activity Undertaken for the first 11 months of 2009/10**

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.
	Cheques and BACS upgraded systems	Assisted in the implementation of a new desk top cheque production system and the migration of the BACS transmission functions from Xentrall ICT to the service users to provide a more efficient and streamlined service. BACS system went live in Darlington from 1 st December and work on the cheque production system is still progressing.
	PCI Standard	Work continues on implementation of the Plastic Card Industry Data Security Standard, a mandatory standard for organisations taking credit and debit card payments designed to provide assurance that processing and data storage systems holding personal credit and debit card information are robust and secure from external threats
	Special Investigation	Provided continued support to Police in an investigation involving the submission of a number of cheques to the Council drawn fraudulently on a third party. The case has been to Crown Court where the defendant was found guilty and given a 12 months suspended sentence.
	Special Investigation	Provided continued support to Police in respect of a case involving an overpayment made by the Council to a supplier which has not been repaid. The case remains ongoing.
	Special Investigation	Investigation undertaken in respect of a significant cash discrepancy. The case resulted in the resignation of a member of staff and referral to the police. Subsequently the individual pleaded guilty to charges of theft at Magistrates Court and was sentenced at Crown Court.
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.

Department	Description	Output
	Special Investigation	Assisted in the investigation in to the alleged unauthorised use of mobile phones, Council vehicles and misappropriation of Council Stock. The investigation has been completed and resulted in the dismissal of one employee. The case has been referred to the Police.
	Special Investigation	Investigation undertaken in respect of three cases of suspected e mail abuse. The investigation has been concluded with appropriate action taken against the employees concerned. Management controls have since been strengthened.
	Special Investigation	Assisted with an investigation concerning a significant cash discrepancy. The investigation has been concluded and has resulted in the dismissal of an employee. The Police investigation remains ongoing and assistance continues to be provided as required.
	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.
	Open Contractor – Replacement IT System	Provided advice on the requisite control environment around the Stores, Procurement and Job Costing functions as part of the migration from the old system Contractor Plus to the new Open Contractor. The new system is scheduled to go live in January 2010.
Children’s Services	Contact Point	Readiness assessment undertaken in preparation for organisational accreditation by the DCSF. Outcome reported to the Contact Point Steering Group who will monitor that outstanding issues are addressed. Moreover, procedures drafted covering roles and responsibilities for organisational requirement No: 7 Internal Audit.
	Procedural Documentation for Schools	Provided comment and assistance to Children’s Services Schools Finance Team in the drafting of a procedural manual for primary schools. Drafted specific sections covering Audit Services’ roles and responsibilities, FMSiS assessment and anti fraud and corruption arrangements.
	Schools Commissioning	Contributed to a report to the Joint Consultative Group (JCG) covering Audit Services’ role in supporting the schools commissioning and procurement agenda. The report was favourably received and an initial meeting has been held between the Children’s Services Commissioning & Contracts Manager and interested parties to progress with schools.

Department	Description	Output
	Contract Monitoring PFI Scheme	Work ongoing to support the establishment of an integrated contract monitoring regime. Children's Services liaising with all interested parties together with an expert external advisor to contribute to and expedite the process.
Chief Executives	Special Investigation	Assisted with an HR investigation.
Corporate Core	Use of Resources	Coordinated/assisted with the provision of evidence to support the external Use of Resources assessment by PwC. Positive outcome achieved with the Council scored at 3 in aggregate. This equates to 'performs well'.
	Anti Fraud Arrangements	Article drafted on the Council's zero tolerance approach to fraud that was published in the November 2009 edition of the Council's Flyer staff magazine.
	CLMS	Completed updated content in revised power point format for relevant corporate governance documents/functions. System due for re-launch in 2010.
	NFI 2008	Administered the Council's obligations under the NFI 2008 data matching exercise. PwC reviewed the adequacy of arrangements and had no concerns to report.
	Annual Governance Statement	Annual Governance Statement drafted in conjunction with the Management Group responsible, approved by the Audit Committee in June 2009, signed by the Leader and the Chief Executive and published along side the Annual Statement of Accounts.
	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 2009.

AUDIT SERVICES – KEY PERFORMANCE INDICATORS 2008/09

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	3/4
2. Outcome from annual review of internal audit effectiveness.	Effective	Effective
3. Days per auditor as per CIPFA Benchmarking Statistics for Unitary Authorities.	185 Top Quartile	On target to achieve
4. Cost per audit day as per CIPFA Benchmarking Statistics for Unitary Authorities	£297 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	Achieved
7. % of planned pre determined audit assignments completed within the year relative the agreed audit plan	92%	85% (see paragraph 15 of the report)
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%