
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 eight 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 September 2010 has resulted in ten substantial and three limited assurance opinions. Limited opinions resulted from audit reviews of the Sales Ledger, Debit and Credit Card Processing and Supported Living Schemes. However management have responded positively to the audit findings in these instances and action plans have 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

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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 2010/11 was approved by the Audit Committee in March 2010 (Minute A43/March/10) and this report covers progress made during the first eight months of the year i.e. to 30 November 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 30 November 2010 are shown at Appendix A. Since the last progress report in September 2010, audit work was carried out on the core financial systems of Corporate Services and Community Services (Open Contractor) Departmental Creditors, the Sales Ledger and Debit and Credit Card Processing. The Creditors audits resulted in substantial assurance opinions. In respect of the Sales Ledger, a limited assurance opinion was given as issues were identified with a lack of ownership of debt, legal recovery, debts in dispute, proof of debts and instalments. Debit and Credit Card processing also received a limited assurance opinion due to a lack of progress in implementation of the PCI Data Security Standard since the Cultural Services booking systems require a systems upgrade before compliance can be sought. In respect of both audits that received a limited assurance opinion, management have responded positively to the audit findings and agreed an action plan to deliver the improvements required. It should be noted that the Sales Ledger Audit replaced the Procurement Audit which was in the original audit plan approved in March 2010. The rationale being that Procurement was already the subject of ongoing analysis work by the Corporate Procurement Unit in conjunction with external consultants and the outstanding debt on the Sales Ledger had been flagged by the Finance Practitioners Group as an area of concern.
11. In addition, since September 2010 the audits of the Schools Finance Support Team, Sickness Absence Management and Dolphin Centre Catering have resulted in substantial assurance opinions along with five primary schools. Only two of the schools were reassessed in respect of FMSiS, both achieving a pass, as the Standard was discontinued by the Government on 15th November 2010 with immediate effect. In respect of Supported Living Schemes a limited assurance opinion resulted as evidenced external management sample checking of and delegation for financial transactions at establishments was required and client's files were not being kept up-to-date. Again management have responded positively to the audit findings and agreed to implementation of the improvements required.

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). At this stage, it is anticipated that operational targets are likely to be achieved although there exists the possibility that the target for completed audit assignments relative to the agreed Audit Plan may not be met due to the impending maternity leave of one member of staff and if those special investigations previously referred to the police progress to court and officers are required to attend to give evidence or further investigations arise.
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 EIGHT 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 Credit and Debit Card Processing - Limited	Progress continues to be made in respect of achieving compliance with the PCI Standard. However issues remain in respect of the Leisure and Culture booking systems where new upgrades to the software are required before compliance can be sought	Processing of debit and credit card payments in respect of Leisure to be re routed through a hosted solution which will solve the compliance issue. Options to be considered in respect of the Culture system to include as above with Leisure and the upgrade of the system to a compliant version of the software subject to cost. Also subject to the review of Cultural Services as part of the ongoing budget cycle.
	Treasury Management	Full		
	Sales Ledger	Limited	Issues identified in respect of insufficient ownership of outstanding debt, legal recovery, accounts in dispute, multiple debts, proof of debts and payment by instalments	Management have responded positively to the audit findings and an action plan has been agreed to facilitate the improvements required.
	Sickness Absence Management	Substantial		

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
	Creditors	Substantial		
Community Services	Dolphin Centre Leisure	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		
	Creditors – Open Contractor	Substantial		
	Dolphin Centre Catering	Substantial		
	Supported Living	Limited	Evidenced external management sample checking of and delegation for financial transactions at establishments was required and client's files were not being kept up-to-date.	Management have responded positively to the audit findings and an action plan has been agreed to facilitate the improvements required
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.	
Children's	Schools Finance Support Team	Substantial		
	5 X Primary Schools plus FMSiS reassessment	5 x Substantial 2 x FMSiS pass	Only 2 school audits were undertaken which included FMSiS reassessment. The standard was discontinued by the Government on 15 th November 2010 with immediate effect.	

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
	Trusts and Funds	N/A	Accounts audited in accordance with Charity Commission guidelines. A satisfactory position was noted	
Corporate Core	Data Quality /Performance Indicators		Opinion not given as work non standard appraisal. Audit work focused on: <ul style="list-style-type: none"> i) finalising the format and content of a third party data quality assurance statement with another local authority in preparation for formal agreement with and future use by significant partner organisations. ii) supporting departments in the rollout of a data quality 'self audit regime' 	
	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

Department	Audit Assignment	Stage of Audit
Community Services	Capital Schemes Review of Project Management Methodology	Fieldwork ongoing
	Stores	Currently scoped
Corporate Services	VAT	Fieldwork ongoing
	Local Taxation	Fieldwork commenced
Children’s Services	Special Education and Needs Service	Fieldwork ongoing
	Foster Care Payments	Currently scoping
	Primary Schools x 4	Ongoing or due to commenced imminently
	Creditors	Fieldwork commenced
Corporate Core	Inventories	Fieldwork commenced

**Summary of the More Significant Outputs from Consultancy/Corporate Arrangements
Work/Contingency Activity Undertaken for the first 8 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 focus groups for individual service areas within Transactional Finance. Further work is also being undertaken in relation to the procurement of a new income system for Darlington/Stockton SBC.
	Special Investigation	Investigation undertaken in response to a disclosure under the confidential reporting policy. The investigation has resulted in disciplinary action being taken. The police have also been informed and are undertaking their own enquiries.
Core Corporate	National Fraud Initiative (NFI)2010	Data extracts submitted in accordance with Audit Commission timescales in early October 2010. Fair processing consultation carried out via the Joint Consultative Committee in November 2010. Further articles to follow in the Flyer, Hot News etc. Licence application process amended to address 'right to work in the UK' question to enable data matching in this area.
	Anti Fraud & Corruption Arrangements	Content of next edition of Fraud Newsletter being finalised for issue Winter 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.

Department	Description	Output
	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.
	Transformation Projects	Assistance provided with pilot projects on Procure to Pay and Financial Assessments.
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.
	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 2010 with the defendant pleading guilty. A suspended sentence was passed.
	Special Investigation	Provided support to the police in respect of a significant cash discrepancy identified during the course of an audit review. The police investigation has been concluded without any further action being taken. As part of the audit review, recommendations were made to further strengthen internal controls.
	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.
	Special Investigation	Assisting with an investigation into a significant cash discrepancy within Cultural Services.
Children's Services	Special Investigation	Investigation undertaken in respect of an allegation of the submission of bogus expenses claims. The investigation proved inconclusive and although no disciplinary resulted steps have been taken to strengthen the monitoring and authorising system in place.

Department	Description	Output
	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.
	PFI Scheme	Assistance provided to facilitate 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%