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**AUDIT SERVICES ANNUAL AUDIT PLAN 2010/11 – PROGRESS REPORT**

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**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 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 2010 has resulted in three full, two substantial and two limited assurance opinions. The limited opinions resulted from audit reviews of the Depot Stores and a primary school. 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 eleven months of the year i.e. to 28 February 2011. For ease and consistency purposes the information presented reflects the former Council structure on which the 2010/11 Plan was based.
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 2011 are shown at Appendix A. Audit work is ongoing in respect of the core financial systems of Payroll, Local Taxation, Children's Services Creditors, Housing Rents and Housing Benefits.
11. In addition, since December 2010 the audit of three primary schools has resulted in full assurance opinions whilst the audit of the Special Education Needs Service and a further primary school resulted in substantial assurance opinions. Limited assurance opinions resulted from the audit of the Depot Stores where improvements were required in respect of the continuous inventory process and completion and authorisation of stores requisitions and a primary school where improvements were required to the school meals reconciliation process, lettings procedures and ICT backup arrangements. 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 progress on implementation of audit recommendations agreed in audit reports with managers. 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 all operational targets are likely to be achieved with the exception of completed audit assignments relative to the agreed Audit Plan where an outturn of 86% is anticipated against a target of 92%. This is explained by maternity leave and the time required for special investigation cases. The audit assignments that will not be completed have been included in the 2011/2012 Annual Audit Plan where considered relevant i.e. Contract Audit, Waste Contract, Street Scene, Procurement and Business Continuity.
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 ELEVEN 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.
	Treasury Management	Full		
	Review of 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	Substantial		
	Creditors	Substantial		
Community Services	Dolphin Centre Leisure	Limited	Issues identified with control of	Management have

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
			income linked principally to the functionality of the current version of the Leisure Management computerised system.	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
	Stores	Limited	Issues identified in respect of deficiencies in the continuous inventory process, authorisation and completion of stores requisitions, misinterpretation of stock conversions leading to significant error rates, the use of inefficient manual systems which remain prone to error.	Management have responded positively to the audit findings and an action plan has been agreed to facilitate the improvements required including the introduction of new technology to improve systems processes.
<b>Chief Executives</b>	European Grants	N/A	Opinion not given as work non standard appraisal. Audit of grant expenditure completed in accordance with grant terms and conditions.	
<b>Children's</b>	Schools Finance Support Team	Substantial		

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
	10 X Primary Schools	3 x Full Assurance  6 x Substantial  1 x Limited    2 x FMSiS pass	Improvements required in the reconciliation of school meals, lettings procedures and ICT backup arrangements.    Only 2 school audits were undertaken that involved FMSiS reassessment. The Standard was discontinued by the Government on 15 <sup>th</sup> November, 2010 with immediate effect.	The Head Teacher has responded positively to the audit findings and an action plan has been agreed to facilitate the improvements required.
	Trusts and Funds	N/A	Accounts audited in accordance with Charity Commission guidelines. A satisfactory position was noted	
	Special Education Services	Substantial		
	Contract Monitoring – PFI Scheme	N/A	Opinion not given as work non standard appraisal. Audit work focused on the development of a contract monitoring framework document to be used and developed by the School Assets Team.	
<b>Corporate Core</b>	Data Quality /Performance Indicators	N/A	Opinion not given as work non standard appraisal. Audit work	

Department	Audit Assignment	Assurance Opinion	Where Assurance Opinion Less Than Substantial	
			Audit Comment	Management Response
			focused on 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 and supporting departments in the rollout of a data quality 'self audit regime'	
	Mayors Charity Fund	N/A	Annual audit of accounts completed.	
	LAA	N/A	Opinion not given as work non standard appraisal. Audit work focused on the verification of performance indicators to enable the processing of the reward grant.	
	T.M. Barron Charity	N/A	Annual audit of accounts completed.	



<b>OPINION</b>	<b>DEFINTION</b>
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

<b>Department</b>	<b>Audit Assignment</b>	<b>Stage of Audit</b>
<b>Corporate Core</b>	Inventories	Fieldwork commenced
	Grants	Draft report stage
<b>Chief Executives</b>	Development Control and Planning	Fieldwork commenced
	Creditors	Currently scoping
<b>Corporate Services</b>	Local Taxation	Fieldwork commenced
	VAT	Draft report stage
	Payroll	Draft report stage
<b>Community Services</b>	Housing Benefits	Fieldwork commenced
	Housing Rents	Fieldwork commenced
	Transport Services	Fieldwork commenced
<b>Children's Services</b>	1 x Primary School	Draft report stage
	Looked after Children	Draft report stage

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

<b>Department</b>	<b>Description</b>	<b>Output</b>
<b>Corporate Services</b>	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	Undertaking an investigation following a disclosure under the confidential reporting policy. The investigation has resulted in disciplinary action being taken and the police have been informed and are undertaking their own enquiries.
	Special Investigation	Undertaking an investigation in respect of a potential breach of the employee code of conduct.
<b>Core Corporate</b>	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, followed by articles in the Flyer, Town Crier & Hot News. Potential matches notified in late January 2011 and initial investigation work has commenced.
	Anti Fraud & Corruption Arrangements	Content of next edition of Fraud Newsletter being finalised for issue Spring 2011. Online fraud referral form being developed in conjunction with housing benefits staff and web team. Internet web page developed to include multi lingual sentence advising that frauds may be reported in a mother tongue for subsequent translation. Annual Fraud Survey 2009/10 completed as required by the Audit Commission.
	Transformation Projects	Assistance provided with pilot projects in respect of Procure to Pay and Financial Assessments.

Department	Description	Output
	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.
<b>Community Services</b>	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	Assisted 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. 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	Assisted with an investigation into a significant cash discrepancy within Cultural Services. The investigation has now been concluded and has resulted in the strengthening of internal controls.
<b>Children's Services</b>	Special Investigation	Investigation undertaken in respect of 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.

<b>Department</b>	<b>Description</b>	<b>Output</b>
	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.
	Contact Point	Completion of 2009/10 annual compliance return for the DfE. closure/decommissioning work completed following disbanding of the system in August 2010.
<b>Chief Executives</b>	Special Investigation	Assistance and advice provided in the processing of a reimbursement claim for taxi vouchers.

## 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	Maintain	Maintained
7. % of planned pre determined audit assignments completed within the year relative the agreed audit plan	92%	86% See paragraph 15 of 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%