



## Derby City Council– AuditPlan 2016-17

Audit & Accounts Committee:23<sup>rd</sup> March 2016



## Our Vision

Through continuous improvement, the central midlands audit partnership will strive to provide cost effective, high quality internal audit services that meet the needs and expectations of all its partners.

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# Derby City Council – Audit Plan 2016-17

## Introduction

### Reasons for an Audit Plan

The Public Sector Internal Audit Standards (PSIAS) state that annually the Chief Audit Executive is responsible for developing a risk-based plan.

A fundamental role of Internal Audit is to provide members and senior management with independent assurance on the organisation's overall control environment, comprising the systems of governance, risk management, and internal control and to highlight control weaknesses together with recommendations for improvement. The annual Audit Plan sets out proposals on how this will be achieved in the year ahead.

The Audit Plan must incorporate sufficient work to enable the Chief Audit Executive to give an opinion on the adequacy of the organisation's overall control environment. Internal Audit must therefore have sufficient resources to deliver the Audit Plan.

The audit work planned for 2016/17 will inform the Chief Audit Executive's opinion on the internal control environment that exists within the organisation. The Chief Audit Executive reports his overall opinion to the organisation's Board (i.e. the body carrying out the role of the organisation's Audit Committee) on an annual basis.

This report provides the Board with an opportunity to challenge and approve the planned work of the Internal Audit service. As well as satisfying themselves that the methodology and arrangements for preparing the annual Audit Plan are robust.

### Approach to Audit Planning

The Audit Manager is responsible for delivering the audit service. To ensure that this can be achieved there are appropriate

arrangements for audit planning and ensuring that the plan is adequately resourced with the necessary level of skilled and experienced staff.

The Chief Audit Executive takes into account the organisation's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation. If a framework does not exist, the Chief Audit Executive uses his own judgment of risks after consideration of input from senior management and the board. The Chief Audit Executive must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls.



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As such, the service will be delivered on the principle of a risk based audit plan compiled by the Audit Manager in consultation with the organisation's Management, using a risk assessment model which allocates a risk factor of high, medium or low to all the areas for audit review to be undertaken.

We will also consider the organisation's risk management arrangements to inform our risk assessment. We will endeavour to meet with relevant managers to further understand the risk areas where internal audit assurance will be appropriate. The audit plan sets out the number of days required for Internal Audit to adequately review the areas involved and indicates the priority level for each planned audit assignment. The overriding objective of this approach is to ensure that the Chief Audit Executive is able to present an annual opinion on the organisation's overall control environment by directing adequate resources based on the relative risks of operations, resources and services involved.

The audit plan balances the following requirements:

- The need to ensure the plan is completed in line with the agreed performance targets.
- The need to ensure the core financial systems are adequately reviewed to provide assurance that management has in place proper arrangements for financial control.
- The need to appropriately review both strategic risk and operational risk areas.
- The need to have a sufficient contingency element to deal with unplanned issues and investigations that arise during the year.
- To enable positive, timely input to assist corporate and service developments.
- To meet the requirements of the managed audit arrangements with the external auditors to ensure that they can comply with the International Auditing Standard, including system documentation

and evaluation for all business critical systems and validation of performance indicator outturns.

Progress in completing the audit plan, as well as achieving its performance targets will be submitted to the Board as part of regular Internal Audit Progress reports.

### Aims of Audit Coverage

The objectives of Internal Audit's planned coverage are as follows:

- Provide an assurance on the organisation's internal control system, and hence there is need to audit areas of financial and non-financial risk as this will encompass some of the key governance systems.
- Audit the main financial systems and other systems related to possible material mis-statements, regardless of comparative risk.
- Deliver risk based assurance on those controls that manage significant risks.
- Fully conforms to the Public Sector Internal Audit Standards (PSIAS) which came into force on 1<sup>st</sup> April 2013.
- Better integrate the outcomes and other information gathered as part, of the internal audit process, with the organisation's risk management process.
- Maintain on-going effective relationships with the External Auditors and deliver complementary plans of work so as to deliver an efficient audit service collectively.
- Ensure that appropriate resources, suitably experienced, and with skills to deliver the whole plan of work are maintained within Internal Audit.
- Improve the efficiency and effectiveness of operations of the service.

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- Promote good corporate governance and control practices and contribute to a good governance culture.
- Work in a positive manner alongside clients, supporting them in the effective management of risk and service delivery.
- Contribute to embedding risk management throughout the organisation's processes.
- Contribute to the development and maintenance of an effective counter fraud culture within the organisation.

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## Content of the Audit Plan

### Audit Resources

Derby City Council's management has made a commitment to increase the amount of Internal Audit coverage to bolster its internal governance arrangements. It has been decided that in the 2016-17 Audit Plan a greater focus will be placed on Anti-Fraud and Probity work. We will explore the opportunities for developing a holistic Corporate Fraud service within the City Council that may also provide services to other Partner organisations.

It is anticipated that the Central Midlands Audit Partnership will provide the organisation with a sustainable service, with comprehensive coverage and an enhanced quality of service. It is envisaged that as the Partnership grows, greater efficiencies may be achieved which could result in further cost reductions to Partner organisations over time.

The Partnership uses a modern risk-based approach to internal audit, which focuses audit reviews on the key risks faced by the organisation. We will utilise our bespoke database systems and automated working papers package that greatly assist with the conduct of audits and the audit management process. These systems cover audit working papers and reports, job control and progress tracking, time recording, recommendation tracking and automated follow-ups, together with performance monitoring and management reporting.

This approach provides a more efficient way of undertaking, documenting and managing the audit services. This will provide greater efficiencies in the delivery of the required assurances to management, as more audit work will be achieved within a given resource allocation than would have been the case using outdated working practices.

The greater resilience brought about by Partnership growth, should ensure the planned audit coverage of each Partner organisation does not experience reductions or additional costs through long-term absences or vacancies, etc. Each organisation will continue to benefit from the specialist audit skills and experience already contained within the Partnership (e.g. computer auditing) which is typically only available at a premium to other organisations.

The general management and administrative overheads associated with the internal audit service will not be detailed in this report as they relate to the Partnership as a whole and are typically not directly attributable to any single organisation. This report will only detail the resource allocations to 'productive' audit work which can be attributed to this organisation.

### Plan Contingencies

The Audit Plan is a flexible document and it is inevitably subject to some changes during the year as a result of emerging issues deemed as a high risk, the need to divert audit resources to investigation work and changes in staffing resources available for audit work.

To ensure changes to the Plan are minimised, within the Plan there are a number of days set aside as "contingencies". These are split as follows:

- **Emerging Issues** - Not all audit work can be planned one year in advance. Accordingly, a contingency of days has been built into the Plan to address issues that occur during the year which Audit need to be aware of and assess the risk implications for the organisation.
- **Advice** - On an ad-hoc basis, Audit is called upon to provide risk and control advice on issues throughout the organisation. This

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consultancy work is a very important service and requests for Audit input are considered to be a good measure of the quality of the Audit service and of the satisfaction of our customers.

- **Investigations** - Internal Audit may be involved in the investigation of suspected internal fraud, theft or major irregularity (where there is some form of alleged financial irregularity, which may have resulted in financial loss to the organisation). Under the Code of Practice this is deemed a non-assurance function, and therefore such work will only be undertaken if the availability of resources allows it. The level of investigation work cannot easily be predicted, but we would normally set the contingency of days to approx. 5% of days available.
- **Follow-up Audits** - Internal Audit is committed towards ensuring that control improvements are achieved and all agreed actions are acted upon. To this end, audit time has been allocated to develop our system for ensuring that agreed actions to audit recommendations are implemented. We have developed a recommendation tracking database, which allows us to monitor, follow-up and report upon the status of all management's actions in respect of agreed audit recommendations.
- **Brought Forward Jobs** - A number of incomplete audits from the 2015/16 Plan will need to be concluded in 2016/17. It has been assumed that brought forward and carry forward figures will remain fairly consistent from year to year. As such, related days will no longer be included in the Plan.

### Types of Audit Work

**Key Financial Systems Audit** - Much of internal audit's assurance work comes from the review of the risks and controls associated with the organisation's financial systems. External Audit will review the work on the key financial systems to assist them when determining their opinion on organisation's annual accounts. The Plan covers the key financial systems including the Main Accounting Systems, Treasury Management, Fixed Assets, Revenue Systems, Creditors, Debtors

and, Payroll. The consequences of these system processes going wrong could lead to service failure and wasted resources.

**Systems / Risk Based Audits** - The auditor's prime role is to review the internal control system and report upon the adequacy of controls. An organisation's overall internal control system is the product of all of those systems and processes that the organisation has created to deliver its business objectives, both financial and non-financial. It follows that one of the main ways that auditors will form a view on the overall control system is by carrying out reviews of the component systems and processes. These are commonly known as systems-based audits. They enable auditors to:

- Assess how internal controls are operating in a system to manage risk, thereby forming a view on whether reliance can be placed upon the system.
- Provide management with assurances that systems are adequately meeting the purposes for which they were designed.
- Provide constructive and practical recommendations to strengthen systems and address identified risks.
- Use findings to feed into an overall opinion on the control framework.
- Provide evidence for external audit and other review agencies.

**IT Audit** – Typically our IT auditing coverage focuses on the following:

- **Infrastructure** - Infrastructure audits cover perimeter defences, authentication, management and monitoring, and devices. Broken down further, IT Infrastructure Audits typically address Anti-Virus, Intrusion Detection Systems, Firewalls, Routers, Switches, Operating Systems, Directory Services (Active Directory), Group Policy, Virtual Private Networks, Database Platforms, Web Server Platforms, Application Server Platforms, Network Management, Network Design, Networking Hardware, Centralised Storage, Virtualization, Telecommunications and IT



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Telephony, Remote Access Solutions(Citrix) amongst others. Infrastructure audits help provide assurance that the Company's private network is protected from internet attacks, unauthorised or inappropriate access via local or remote attacks, and also ensure the organisation has the necessary monitoring and incident analysis to maintain and analyse the Network.

- **Applications:** Application audits cover thin and fat client applications, and both internal (Intranet) or external (Web) applications. Applications audits typically focus on CIAA (confidentiality, integrity, availability and accountability risks). This can be broken down to look at application deployment and use, to ensure the applications and hosting servers are protected, and design and configuration ensure attackers cannot exploit vulnerabilities to gain unauthorised access to sensitive corporate data.

**Governance Reviews** - The governance framework comprises the systems and processes, and culture and values, by which the organisation is directed and controlled, and by which it accounts to, engages with and leads the community. It includes arrangements to monitor the achievement of its strategic objectives and to consider whether this has led to the delivery of appropriate, cost-effective services. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable, and not absolute, assurance of effectiveness. Internal Audit undertakes reviews of key aspects of the organisation's governance framework by looking at corporate systems such as Risk Management, Health & Safety, Data Quality, Anti -Fraud etc.

**Procurement/Contract Audit** - Procurement involves the process of acquisition from such third parties, and spans the whole life cycle from the initial concept (determining the need), through buying and delivery, to the end of a service contract. The audit approach to procurement should primarily concern the organisation's corporate

procurement strategy and associated management structures and processes, including contract procedure rules and detailed procurement guidance. Internal Audit should focus resources on those areas perceived on an annual basis to be of highest risk. To identify such areas, it will be necessary to have information regarding the current spending on procurement by each area within the authority, together with its plans for the future (including any major service contracts that are due for re-letting).





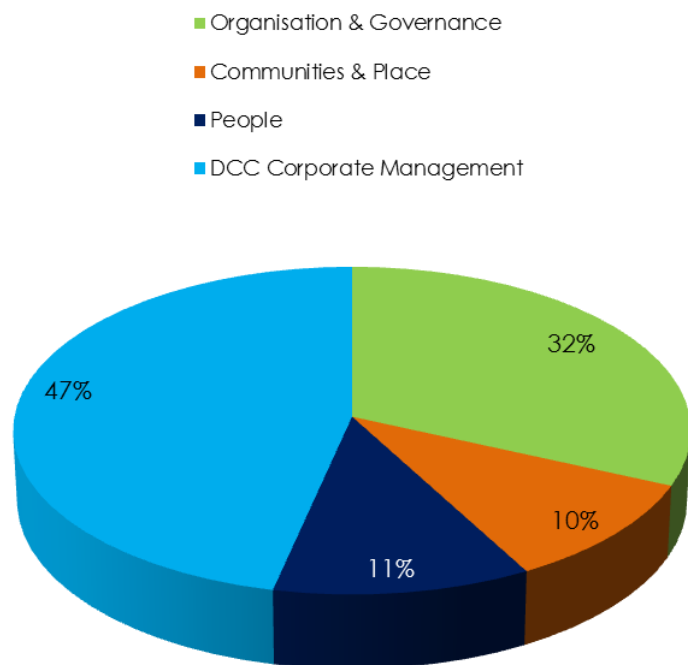
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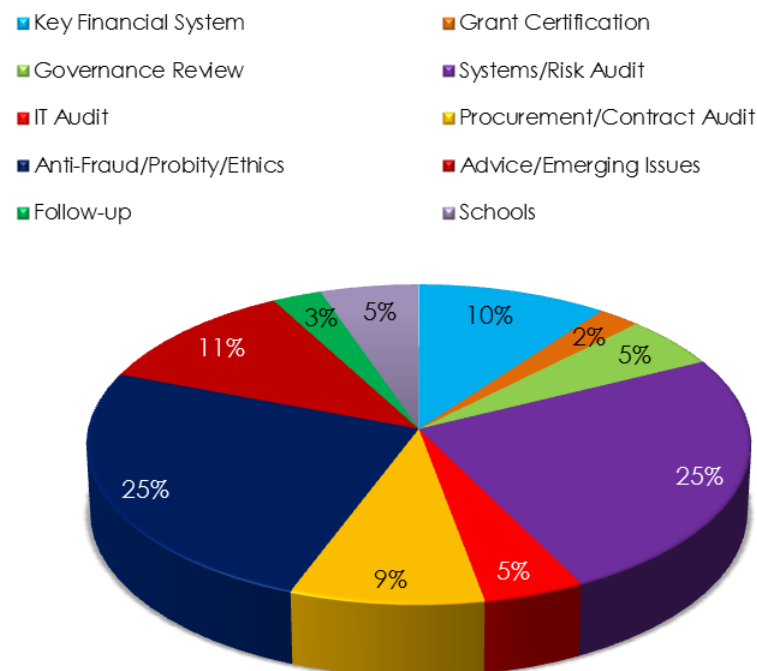
### Overview Charts of Planned Coverage

## Derby City Council – Audit Plan 2016-17

Audit Plan 2016-17  
Time Allocated to Each  
Department



Audit Plan 2016-17  
Time Allocation per Type of Audit



## Derby City Council – Audit Plan 2016-17

## Detailed Audit Plan Proposal

Plan 2013-14	Plan 2014-15	Plan 2015-16	Derby City Council – Audit Plan 2016-17	Risk Score	Risk Rating	Plan Days	Type of Audit
<b>ORGANISATION &amp; GOVERNANCE</b>							
✓		✓	Data Quality & Performance	50	Medium	15	Governance Review
			People Management	53	Medium	15	Systems/Risk Audit
			Grant Certification Work	42	Medium	30	Grant Certification
✓	✓	✓	Schools SFVS	57	High	70	Schools
✓	✓	✓	Main Accounting Systems (incl. Budgets, Reconciliations, MTFP)	56	High	20	Key Financial System
✓	✓	✓	Treasury Management	56	High	20	Key Financial System
✓	✓	✓	Fixed Assets	51	Medium	15	Key Financial System
			Taxation	50	Medium	15	Systems/Risk Audit
✓			Procurement Monitoring	66	High	20	Procurement/Contract Audit
	✓	✓	Procurement Control	63	High	20	Procurement/Contract Audit
	✓		Capital Contracts	61	High	20	Procurement/Contract Audit
			Revenue Contracts	58	High	20	Procurement/Contract Audit
✓	✓	✓	Housing Benefits & Council Tax Support	66	High	20	Key Financial System
✓	✓	✓	Council Tax	59	High	20	Key Financial System
✓	✓	✓	NDR	61	High	20	Key Financial System
✓	✓	✓	Payroll	65	High	20	Key Financial System
✓		✓	Risk Management & Insurance	63	High	20	Governance Review
✓			Information Governance	55	High	20	Governance Review
✓	✓	✓	ICT / Information Software Support	62	High	60	IT Audit
<b>Organisation &amp; Governance Total Days</b>						<b>460</b>	
<b>COMMUNITIES &amp; PLACE</b>							
			Derby Arena	57	High	20	Systems/Risk Audit
			Section 106 Agreements	51	Medium	15	Systems/Risk Audit
			Refuse Collection & Recycling	55	High	20	Systems/Risk Audit
			Licensing	53	Medium	15	Systems/Risk Audit
✓			Trading Standards	50	Medium	20	Systems/Risk Audit

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✓	Emergency Planning	48	Medium	15	Systems/Risk Audit		
	Health & Safety	48	Medium	15	Governance Review		
	Economic Regeneration	54	Medium	15	Systems/Risk Audit		
	External Funding	54	Medium	15	Systems/Risk Audit		
	Commercial Rents	49	Medium	15	Systems/Risk Audit		
	Property Maintenance	55	High	20	Systems/Risk Audit		
Communities & Place Total Days				185			
PEOPLE							
	Independent Living Funds	55	High	20	Systems/Risk Audit		
	Transition to Adult Services for Disabled Young People	48	Medium	15	Systems/Risk Audit		
	Adult Safeguarding	48	Medium	15	Systems/Risk Audit		
	SEND - Local Offer - Travel & Other Support	48	Medium	15	Systems/Risk Audit		
	Looked After Children (LAC) Strategy & Reviews	53	Medium	15	Systems/Risk Audit		
	Fostering Services	51	Medium	15	Systems/Risk Audit		
	Child Protection - Local Authority Designated Officer (LADO)	48	Medium	15	Systems/Risk Audit		
	Priority Schools Building Programme	51	Medium	15	Procurement/Contract Audit		
	Public Health - Commissioning	55	High	20	Procurement/Contract Audit		
	Public Health - Pooled Budgets	57	High	20	Systems/Risk Audit		
People Total Days				165			
DCC Corporate Management							
	Partnership Reallocation			30	Advice/Emerging Issues		
	Internal Audit			75	Advice/Emerging Issues		
✓	✓	✓	Anti-Fraud & Corruption & Ethics	62	High	332	Anti-Fraud/Probity/Ethics
			Advice & Emerging Issues			45	Advice/Emerging Issues
			Follow-ups			35	Follow-up
			Requirements of the Host			123	
DCC Corporate Management Total Days				640			
Derby City Council Total Days				1450			