



DERBY CITY COUNCIL

**AUDIT AND ACCOUNTS
COMMITTEE
26 JUNE 2008**

ITEM 16

Report of the Head of Audit and
Risk Management

INTERNAL AUDIT PLAN 2008/9

RECOMMENDATION

- 1.1 To approve the 2008/9 internal audit plan.

SUPPORTING INFORMATION

Background

- 2.1 Planning the audit coverage each year requires that several key factors are taken into account which will influence not only the nature of audit reviews, but the way the Section operates. The following key issues will influence the 2008/9 Plan:
- The CIPFA Code of Practice for Internal Audit for Local Government in the UK was published in 2006 and has set 11 Standards that all internal audit sections need to achieve.
 - The 2008/9 Plan needs to consider the risks to the Council achieving its objectives and to ensure that controls are in place to mitigate them. The national focus of internal audit work is moving towards more risk-based approaches within a wider corporate governance role.
 - The plan needs to reflect the extent to which the Council's key systems are computerised and the importance of local and national initiatives on information technology.
 - The need to avoid duplication with the reviews to be undertaken by external audit or other external inspection bodies.
- 2.2 Preliminary discussions have taken place with the Council's External Auditor on the coverage of the Audit Plan, as well as a number of key officers in each of the departments. The overall draft audit plan has been discussed with the Corporate Director – Resources, in his role as the Council's s151 Officer.

The 2008/9 Plan

- 2.3 The Internal Audit Plan for 2008/9 is shown at Appendix 2. The total planned allocation of productive time is 1,940 audit days. The Plan for 2007/8 was for 1,915 days.

- 2.4 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. At its meeting on 1 November 2007, this Committee approved a number of deferrals from the 2007/8 Plan to the 2008/9 plan. Where the risk to the Council has not diminished, these postponed audits have been included in this year's plan.
- 2.5 Prioritisation of new audit work is based on our Risk Assessment. This enables Internal Audit management to evaluate the vulnerability of a particular system / auditable area in order that audit resources may be targeted at areas of greatest risk to the Council. It is in part based on subjective judgment, but modelling techniques are also used to ensure that the approach is systematic.

Resources Department

- 2.6 The main area for internal audit work is the Resources Department which has responsibility for the Council's fundamental financial systems, which are the key to the running of the Council. Hence the majority of audits planned in the department are reviews of the central control elements and associated risks of the fundamental financial systems. Under the Managed Audit concept, External Audit will review the work on the fundamental financial systems to assist them when determining their opinion on the Council's annual accounts. The Plan covers the Council's key financial systems including the General Ledger, Creditors, Debtors, Payroll, Treasury Management, NNDR, Council Tax, Housing Benefit and Cash Receipting. The consequences of these system processes going wrong could lead to service failure and wasted resources.
- 2.7 As in previous years, time has been set aside to review the robustness of the systems that produce the information required for the performance indicators. The time planned for these audits is included in each department's time allocation.
- 2.8 Following a positive vote on 29 November 2007, a Business Improvement District (BID) is operating in Derby. Located in the City Centre, the Cathedral Quarter BID is operated by Cathedral Quarter Ltd. This audit will focus on the controls and governance arrangements in place which ensures that the levy collection is appropriately managed.
- 2.9 The Council uses a wide range of information technology for an increasingly diverse and complex range of business needs. The Audit Plan includes time for reviewing key risks in relation to ICT. This area of the plan is still under development, although initial meetings have been held with officers from the ICT Section. The aim for 2008/9 is to cover:
- Application Audit (Academy) - We plan to focus on the Housing Benefits system to offer assurance that the current configuration of the system adequately controls valid, accurate, secure input-processing-output of all tiers of system activity. We will assess the overall security settings and focus on the server, database and front-end interface by reviewing the numerous elements of the system that include access control, awareness and training, audit & accountability, contingency planning, identification and authentication, incident response and system maintenance.

- Application Audit (Oracle) - We aim to address specific coverage to the Accounts Payable module of Oracle Financials. Current Audit coverage into the debtors system and processes has identified additional areas where security through technology and configuration of the application could improve the control environment. The Oracle E-Business Suite offers an array of configuration settings that cover account management, separation of duties, least privilege, failed login attempts, system use notifications auditing, monitoring and reporting of user activity are an example of the key areas that need to be addressed for high risk applications.
- Technology Audit Remote Working - We plan to add coverage into the current security arrangements of the Council's remote access methods (VPN, remote system control, individual web applications) that have been introduced for Council's "New Ways of Working" initiative. In addition to the methods of remote access we will ensure that controls are appropriate to secure external devices used for remote working against their primary threat of malware, and assess their appropriateness to be introduced into the Council's extended network.
- Emerging IT Issues - We have a responsibility to ensure that on-going IT Projects adhere to the objectives of the Council, and that proposals adhere to both best practice security guidance and systems development standards. We will conduct risk profiles of current and new projects, and where appropriate offer audit advice to current proposals
- IT Applications Risk Assessment - We have a responsibility to ensure that IT Audit coverage follows a justified risk management process to aid in protecting the Council's information assets from IT related risk. To ensure that IT Audit focuses on the correct areas of key risk, the Council's applications need to be regularly monitored and risk assessed to identify all high risk applications. This will determine future IT Audit coverage.

2.10 Internal Audit has actively participated in the Council's proactive anti-fraud and corruption work for a number of years. In 2008/9 we intend to further enhance the anti-fraud work undertaken on the prevention, detection and deterrence of fraud in the following audit work:

- Corporate Fraud Team Initiative – Work will be undertaken to put together a team with the necessary skills, resources and processes to enhance, manage and deliver the Council's anti-fraud and corruption strategies, policies and practices. It is initially intended that staff from Internal Audit and the Benefits Investigation Unit will look at collaborative working to enhance the current services provided.
- Internal Data Matching / Continuous Auditing – Work is continuing on developing automated data capture, analysis, testing, matching and storage processes for the Council's key systems. It is intended that this will provide assurance that the key financial controls are operating effectively and it will seek to identify irregular data which could potentially identify incidences of fraud or error.
- National Fraud Initiative (NFI) – This work incorporates the co-ordination of the investigation of the matches arising from last year's data submission in relation to Single Persons Discount for Council Tax. Also, another NFI data extraction exercise will take place for submission in 2008.

- 2.11 There will also be an audit of the controls surrounding the use of external payroll providers in respect of the annual Teacher's Pension Return. This is work that the Council's External Auditor needs to place reliance on, in order to certify the return.

Children and Young People's Service

- 2.11 With the extension of the Financial Management Standard in Schools (FMSiS) to primary schools we changed our approach to the audit of schools in 2007/8, to ensure that we could cover all DCC schools in the 3 year time period laid down by the DfES. 40% of Primary, Nursery and Special Schools had to meet the Standard by March 2008; a further 40% by March 2009; and all remaining schools by March 2010. Audit needs to ensure that schools are properly prepared for the assessments. Our approach will continue to concentrate on working with each school to help them meet the Standard. To achieve this objective, the Audit Section has developed an extensive guidance manual to assist the school with compiling its 'Portfolio of Evidence' in readiness for the external assessment. The Guidance Manual was delivered to each school during 2007/8 as part of an introductory visit to explain the requirements of the Standard and the external assessment process.
- 2.12 Building Schools for the Future (BSF) is a national programme to rebuild 50% of the secondary school estate, to remodel 35% and to refurbish the remaining 15%, over a 15 year programme. The funding is part PFI credits and part grant. We intend to review the governance and management arrangements the Council has in place around the project.
- 2.13 Audit coverage in other areas of Children and Young People's Services has received minimum coverage in the previous couple of years, particularly with the need to defer audits in this department to divert audit resources onto emerging issues and investigations. Audits postponed from last year included in this year's plan are:
- Assessment and Care Management - the review will assess the adequacy of the controls within the systems and procedures, particularly around eligibility.
 - Integrated Disabled Children's Service – this is a Partnership Agreement with the City Council as the Accountable Body. The audit will review the controls around pooled budgets and the risks to the City Council of the partnership.
 - External Placements for Children – given the range of providers the audit will review the robustness of the controls within the systems for making payments

Environmental Services

- 2.14 Planned audit time is increased in departments where audit investigation work has highlighted internal control weaknesses. The audit time planned for Environmental Services increased by 50 days to 229 days in 2007/8 as a result of the control weaknesses uncovered during the investigation within the Public Buildings Division. This investigation and several related investigations accounted for a vast proportion of the audit time spent in this department in 2007/8. Therefore several audits have been re-scheduled for 2008/9. These are:
- Trading Standards – this audit will examine the weaknesses in systems and processes that became apparent during the Trading Standards investigation,

with respect to the way in which inspection visits are managed and recorded, in particular the reporting of accurate and timely management information.

- The Springwood Leisure Centre (Gym Extension & Library) has been included in the plan as a separate audit. This project has a budget of £300,000 with spend to date at £60,000 and an expected outturn of £140,000. It was highlighted as a capital risk budget in the Capital Monitoring 2007/08 report to Cabinet on 18 March 2008.
- Procurement practices – to review the systems in place and assess the adequacy of controls within those systems.

2.15 Further time is also required to cover on-going audit investigations within the department in 2008/9.

Regeneration and Community

2.15 Following consultations with both the Head of Performance and Resources and the Head of Regeneration and Community Finance in the department, the proposed area of audit activity in Regeneration and Community will be a review of:

- Concessionary Travel (Goldcard) - From 1 April 2008, Derby residents aged 60 or over and eligible disabled people will be able to enjoy free off-peak travel on local buses anywhere in England. The City Council is administering and controlling the Goldcard scheme for Derby residents. This audit will establish the control systems around eligibility, maintenance of records and the storage and issue of cards.
- Quad – Given the cost of £10.808m and the fact that the contractor is forecasting a 15 week delay to final completion, this project has been included in the 2008/9 plan. The building handover is expected in late May 2008 with opening expected in late August 2008. It has been highlighted as a capital risk budget in the Capital Monitoring 2007/08 report to Cabinet on 18 March 2008. This audit will scrutinise the project's change management process.
- Highways Maintenance Fixed Term Contract – Approximately £6m is spent on highways maintenance per annum. The 2007/08 Audit is due for completion shortly. We intend to continue to provide ongoing advice and follow up any agreed recommendations.
- Neighbourhood Forums – These have recently been allocated an increase in their expenditure budgets. This audit will evaluate the current controls around the procurement of works, goods and services and any other types of expenditure.

Corporate and Adult Services

2.16 The majority of audit work in this department will be on the following:

- The Supporting People Grant work is to enable the Head of Audit and Risk Management to provide an opinion as to whether the Statement of Grant Usage has been fairly stated.
- The Equalities and Diversity review will cover the Council's compliance with the key legislation, identify policies and procedures that relate to equalities and review the steps the Council has taken to raise awareness of equalities issues.

Other Audit Activity

- 2.17 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 Council.
 - Advice - On an ad-hoc basis, Audit is called upon to provide risk and control advice on issues throughout the Council. This 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 Council). Under the new 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 can not easily be predicted. The contingency included in the plan is expected to grow during the year, but it is considered appropriate at this stage to reflect planned work on the control environment rather than increase the contingency for investigations.
 - 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 follow-up audit reports issued in the previous 6 – 12 months to establish the extent of management’s implementation of agreed actions.
 - Brought Forward Jobs - The section has a number of incomplete audits from the 2007/8 Plan to conclude in 2008/9. Accordingly, the Plan contains an estimate of time necessary to complete each unfinished audit from the previous year.
- 2.18 Audit and Risk Management has a key role to play in governance. The Section is responsible for providing guidance corporately on risk management issues. Risk management is integral to a well managed Council. It is crucial that the aims and objectives of the Council can be clearly linked with the risks involved. Internal Audit’s role is much broader than focusing only on internal control and now needs to be risk focused. It needs to be responsive to changes within the Council. From change arises risk, and as the key risk and control advisors in the Council, Audit and Risk Management needs to be offering advice on managing and controlling project risks and other risks brought about by programmes of change.
- 2.19 The audit work planned for 2008/9 will inform the Head of Audit and Risk Management’s opinion on the internal control environment that exists within the Council. The Head of Audit and Risk Management reports his overall opinion to the Audit and Accounts Committee on an annual basis.
- 2.20 The Internal Audit section has recently recruited to 2 key vacant posts. Another key post became vacant during May and this will filled with an internal transfer in August 2008. Internal Audit is looking to enter into a partnership agreement with an external provider to cover any temporary staffing shortages.

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Background papers:	Internal Audit Risk Assessment
List of appendices:	Appendix 1 - Implications Appendix 2 – Draft Internal Audit Plan 2008/9

IMPLICATIONS

Financial

1. None arising directly.

Legal

2. Under the Accounts and Audit Regulations 2003, the Council is required to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices.

Personnel

3. None directly arising.

Equalities impact

4. None directly arising.

Corporate objectives and priorities for change

5. Internal Audit contributes through its review work on the major corporate risks to the Council achieving corporate objectives and priorities. This is achieved by the audit of key systems and corporate governance issues and the associated risks. The work of Internal Audit is also relevant to the priority of 'value for money'.

Internal Audit – Tactical Plan 2008/9

Internal Audit Activity	Annual Plan Days
Regeneration and Community	
LPSA2 Target 3 Road Accidents	3.00
LPSA2 Target 4 Domestic Violence	3.00
LPSA2 Target 8 Violent Crime	3.00
Highways Maintenance Term Contract - Partnership	25.00
Concessionary Travel - Gold Card	25.00
QUAD - Change Control	25.00
LAA - Governance Arrangements	25.00
Neighbourhood Forums	25.00
Parking Enforcement - Income Follow-up	5.00
Derby 7C Project - Certification	2.00
R&C B/Fwd Audits	42.00
R&C Proactive Fraud / Investigations	30.00
R&C Advice / Emerging Issues	20.00
R&C Follow-up	2.00
	235.00
Children and Young People's	
FMSiS Assessments - 2008-9	210.00
Review and Maintenance of FMSiS Process	20.00
Lees Brook Secondary School - FMSiS Assessment	5.00
Building Schools for the Future	30.00
LPSA2 Target 6 Disabled Children	1.00
Integrated Disabled Childrens Service - Partnership Agreement	30.00
External Placements for Children	30.00
Assessment & Care Management - admission into care	30.00
Austin-Sunnyhill SureStart - Follow-up	5.00
C&YP B/Fwd Audits	72.00
C&YP Proactive Fraud / Investigations	40.00
C&YP Advice / Emerging Issues	20.00
C&YP Follow-up	2.00
	495.00
Resources	
Main Accounting System	20.00
Treasury Management	15.00
TR17 Teachers Pension Return 2006-07	25.00
Resources - Fixed Asset Register	15.00
Payroll	20.00
Creditors	20.00
Debtors	20.00
Cashiers	15.00
H&CTB	40.00
Council Tax	15.00
NNDR	15.00
Business Improvement District	25.00
NFI 2007-8 - Single Persons Discount	10.00

LPSA2 - Pump Priming Grant Certification 2007-8	5.00
BVPI Self Assessment	5.00
BVPI Audits	15.00
LPSA 2 Target 12 Smoking Cessation (PCT) 2008-9	1.00
LAA Statement of Grant Usage Certification 2007-8	15.00
Application Audit - Oracle - Accounts Receivable	25.00
Application Audit - Acadamy - Housing Benefits	25.00
IT Applications Risk Assessment	25.00
Technology Audit - Home / Tele-Working Initiatives	25.00
IT Governance - Emerging IT Issues	25.00
Internal Data Matching / Continuous Auditing	50.00
CAATs	15.00
Corporate Fraud Team Initiative	50.00
NFI 2008-9 - Extractions & Matches	30.00
Resources B/Fwd Audits	92.00
Resources Proactive Fraud / Investigations	60.00
Resources Advice / Emerging Issues	20.00
Resources Follow-up	2.00
	740.00

Environmental Services

Procurement	20.00
Trading Standards	25.00
Springwood Leisure Centre - Capital Works	25.00
Environmental Services B/Fwd Audits	13.00
Environmental Services Proactive Fraud / Investigations	70.00
Environmental Services Advice / Emerging Issues	20.00
Environmental Services Follow-up	2.00
	175.00

Corporate and Adult Services

Equal Opportunities	25.00
LPSA2 Target 10 Reduce Homelessness 2008-9	1.00
LPSA2 Target 11 Improve Opportunities for Employment 2008-9	3.00
Supporting People - Statement of Grant Usage 2007-8	10.00
Postal Voting Process	15.00
C&AS B/Fwd Audits	19.00
C&AS Proactive Fraud / Investigations	30.00
C&AS Advice / Emerging Issues	20.00
C&AS Follow-up	2.00
	125.00

External Bodies

Derby Homes	100.00
Derbyshire Fire & Rescue Service	60.00
Other External Bodies	10.00
	170.00

SUMMARY

Regeneration and Community	235.00
Children and Young People's	495.00
Resources	740.00
Environmental Services	175.00
Corporate and Adult Services	125.00
External Bodies	170.00
Planned Days	1,940.00