



DERBY CITY COUNCIL

**AUDIT AND ACCOUNTS
COMMITTEE
28 JUNE 2007**

ITEM XX

Report of the Head of Audit and
Risk Management

INTERNAL AUDIT PLAN 2007/8

RECOMMENDATION

- 1.1 To approve the 2007/8 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 have influenced the 2007/8 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 2007/8 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 computerized 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 The Head of Audit and Risk Management has consulted with each Corporate Director to identify any significant changes to their respective risk environments. Assistant Directors were also asked to contribute service areas where they felt the risks merited audit review. This information has been used to revise the audit risk assessment carried out in 2006/7. Certain risks identified as part of this process have been included in the audit plan.

The 2007/8 Plan

- 2.3 The Internal Audit Plan for 2007/8 is shown at Appendix 2. The total planned allocation of productive time is 1,915 audit days. The Plan for 2006/7 was for 1,893 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. This Committee approved a number of deferrals from the 2006/7 Plan to the 2007/8 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 planned time for the Local Area Agreement is to provide assurance for the Head of Audit and Risk Management to enable him to provide an opinion as to whether the amounts in each Statement of Grant Usage are fairly presented. The Department for Communities and Local Government requires that any significant financial control issues raised by Internal Audit are communicated to the Government Office.
- 2.8 From 1 April 2007, Cudas was replaced by a new financial accounting system - Derby City Council Oracle Financials. The system includes the following modules, iProcurement, Accounts Payable, Accounts Receivable and General Ledger. Internal Audit has a role to play in providing assurance that the controls in the new financial system are working effectively.
- 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.
- 2.10 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 The audit of schools has been the main focus of internal audit activity in both the former Education Service and then in Children and Young People's Services. 2006/7 saw the introduction of the Financial Management Standard in Schools (FMSiS) for Secondary schools. The approach to the audit of schools was to develop a new schools audit programme which addressed the areas covered by FMSiS. The aim was to produce an internal audit report which identified areas where schools were clearly not meeting the Standard and provided recommendations and guidance to address those issues. The school audits based on the revised audit programme were taking well in excess of the 6 days planned for each school. In January 2007 Internal Audit carried out the external assessment of each secondary school. On average each assessment took 4.5 days.
- 2.12 With the extension of FMSiS to primary schools we have had to change our approach to ensure that we cover all DCC schools in the 3 year time period laid down by the DfES. 40% of Primary, Nursery and Special Schools have to meet the Standard by March 2008; a further 40% by March 2009; and all remaining schools by March 2010. Derby City Council has 91 schools that fall into this category; 40% of which equates to 36 schools by March 2008, another 36 schools by March 2009 and the remaining 19 by March 2010. Given that only 5 of the 13 secondary schools assessed met the Standard (38.5% pass rate), Audit need to ensure that schools are properly prepared for the assessments. To achieve the total of 36 schools required to pass, it is planned to undertake 50 formal assessments in 2007/8. This assumes a 72% pass rate for those schools assessed, which is significantly in excess of the pass rate for secondary schools. The new approach will mean that Internal Audit no longer carries out individual school audits. Instead the Section will 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 will be delivered to each school as part of an introductory visit to explain the requirements of the Standard and the external assessment process.
- 2.13 Audit coverage in other areas of Children and Young People's Services has been increased in 2007/8 as it has received minimum coverage in the last 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 ...
- A review of the control of capital schemes within the department - the aim of this review is to report on the soundness of the systems in operation. Initial estimates of costs are often lower than the tender prices submitted but costs tend to increase during the programme.
 - Assessment and Care Management - the review will assess the adequacy of the controls within the systems and procedures, particularly around eligibility.

The plan also includes several service areas that have not been reviewed by internal audit. These include ...

- Procurement, Commissioning and Contracting – to review the systems in place and assess the adequacy of controls within those systems.

- 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 has been increased in departments where audit investigation work has highlighted internal control weaknesses. The audit time planned for Environmental Services has been increased by 50 days to 229 days (179 days in 2006/7) as a result of the control weaknesses uncovered during the investigation within the Public Buildings Division. Further time is also required to cover on-going audit investigations within the department. The key area for audit coverage will be the adequacy of controls around the department's:
- Housing Repairs and Maintenance contract – this audit will examine the controls and procedures which ensure that the quality and costs of labour, materials and overheads are accurate, valid and demonstrate value for money
 - Tendering procedures – this audit will examine the controls and procedures which ensure that the allocation of contracts is fair and transparent; it demonstrates value for money and is in accordance with internal rules
 - Procurement practices – to review the systems in place and assess the adequacy of controls within those systems
 - Income/debtors – this audit will establish the various income streams and evaluate the controls around the raising and management of debts and the collection, recording and banking of income.

Regeneration and Community

- 2.15 The main area of audit activity in Regeneration and Community will be a review of the governance arrangements around the Derby City Partnership. This audit was deferred from 2006/7. Audit will also focus on one of Partnerships being entered into for one of the major capital schemes – Highways Maintenance or Connecting Derby.

Corporate and Adult Services

- 2.16 The majority of audit work in this department will be on audit reviews deferred from 2006/7. Audit has reviewed all of the high risk areas in this department over the past few years. Given the finite resource available to Internal Audit, it is intended that this department will see a significant increase in audit activity in 2008/9. 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.
- 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 2006/7 Plan to conclude in 2007/8. Accordingly, the Plan contains an estimate of time necessary to complete each unfinished audit from the previous year.

- 2.18 Internal Audit 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, Internal Audit 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 2007/8 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 will report his overall opinion to the Audit and Accounts Committee on an annual basis.
- 2.20 The Internal Audit section is currently being re-structured to enable it to further develop and improve the quality of service that it provides. This may result in additional audit days being available in 2007/8. If this does materialise, a further report will be brought to this Committee outlining the areas for additional audit work.

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Background papers:	Internal Audit Risk Assessment - 2006/7 (revised)
List of appendices:	Appendix 1 - Implications Appendix 2 – Draft Internal Audit Plan 2007/8

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 priorities

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 2007/8

Internal Audit Activity	Annual Plan Days
Regeneration and Community	
Connecting Derby	30.00
Derby City Partnership - Governance	40.00
Derwent NDC	20.00
B/Fwd Audits	20.00
Emerging Issues	5.00
Investigations	30.00
Advice	15.00
Follow-up	5.00
	165.00
Children and Young People's	
FMSiS – Primary Schools	341.00
Procurement of capital schemes	25.00
Procurement, Commissioning and Contracting	30.00
Integrated Disabled Children's Service - Partnership Agreement	25.00
External Placements for Children	25.00
Assessment & Care Management - admission into care	25.00
B/Fwd Audits	50.00
Emerging Issues	5.00
Investigations	50.00
Advice	15.00
Follow-up	5.00
	596.00
Resources	
Grants - Corporate Strategy	10.00
Main Accounting System	20.00
Treasury Management	15.00
TR17 Teachers Pension Return 2006-07	15.00
Resources - Fixed Asset Register	15.00
Oracle Financials - Systems Work	40.00
HR / Payroll	20.00
Creditors	20.00
Debtors	20.00
Cashiers	20.00
Housing & Council Tax Benefit	40.00
Council Tax	15.00
NNDR	15.00
LAA	25.00
Performance Indicators	40.00
PCI Data Security Standards - Compliance	30.00
Windows XP Operating System - Security Settings	30.00
Oracle Financials - Security Settings	30.00
Website Security	30.00
Internal Data Matching / Continuous Auditing	30.00
CAATs	15.00

Internal Audit Activity	Annual Plan Days
NFI	20.00
Customer Services - Investigation	5.00
B/Fwd Audits	96.00
Emerging Issues	5.00
Investigations	15.00
Advice	15.00
Follow-up	5.00
	656.00
Environmental Services	
Procurement	20.00
Debtors / Income	20.00
Housing Repairs & Maintenance	30.00
Select Lists / Tendering Procedures	30.00
Joiners Shop	25.00
Trading Standards	25.00
B/Fwd Audits	29.00
Emerging Issues	5.00
Investigations	25.00
Advice	15.00
Follow-up	5.00
	229.00
Corporate and Adult Services	
Equality & Diversity	25.00
Supporting People Grant	10.00
Sensory Team	10.00
Asian Over 60's - Monthly Expenditure Verification	3.00
B/Fwd Audits	19.00
Emerging Issues	5.00
Investigations	10.00
Advice	12.00
Follow-up	5.00
	99.00
External Bodies	
Derby Homes	100.00
Derbyshire Fire & Rescue Service	60.00
East Midlands Centre of Excellence	5.00
Derby Cityscape	5.00
	170.00
Total Time Available	1,915.00
SUMMARY	
Regeneration and Community	165.00
Children and Young People's Resources	596.00
Environmental Services	656.00
Corporate and Adult Services	229.00
External Bodies	99.00
	170.00
Total	1,915.00