

Derby City Council – Internal Audit Plan 2012-13

Audit & Accounts Committee: 27th June 2012



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.

Contacts

Richard Boneham
Head of the Audit Partnership
c/o Derby City Council
Saxon House
Heritage Gate
Friary Street
Derby DE1 1AN
Tel. 01332 643280
richard.boneham@derby.gov.uk

Adrian Manifold
Audit Manager
c/o Derby City Council
Saxon House
Heritage Gate
Friary Street
Derby DE1 1AN
Tel. 01332 643281
adrian.manifold@derby.gov.uk

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central midlands audit partnership

Providing Excellent Audit Services in the Public Sector

Derby City Council – Internal Audit Plan 2012-13

1 Introduction

Reasons for an Audit Plan

The CIPFA Code of Practice for Internal Audit in Local Government recommends that Internal Audit operate to an Audit Plan.

A fundamental role of Internal Audit is to provide members and senior management with independent assurance on the Council'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 Head of Audit to give an opinion on the adequacy of the Council's overall control environment. Internal Audit must therefore have sufficient resources to deliver the Audit Plan.

The audit work planned for 2012/13 will inform the Head of Audit's opinion on the internal control environment that exists within the Council. The Head of Audit reports his overall opinion to the Audit & Accounts Committee on an annual basis.

This report provides members 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.

Senior management are responsible for risk management and the development of the assurance framework. If the risk maturity of the Council is sufficiently developed, Internal Audit would be able to rely on management's assessment of risks as the basis for identifying areas for audit coverage. At the moment, the risk management process at Derby City Council is not yet considered to be sufficiently developed to allow Internal Audit to solely use the organisation's risk registers to identify the required audit coverage. Our planned coverage of Risk Management should determine the current risk maturity of the authority and identify the required improvements in order that future Audit plans can be closely aligned with the issues identified in the Council's risk registers. Organisations will vary in their approach to maturity, from risk enabled to risk naïve. See the diagram on Page 4 on risk maturity from It's A Risky Business: A Practical Guide to Risk Based Auditing (Fully Revised 2nd Edition) (CIPFA, 2005).

As such, the service will be delivered on the basis of a risk based audit plan compiled by the Audit Manager in consultation with the Strategic Directors, 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 Council'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 Head of the Audit Partnership is able to

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1 Introduction (Cont.)

Approach to Audit Planning (Cont.)

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 Council's 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 outputs.
- Progress in completing the audit plan, as well as achieving its performance targets will be submitted to the Audit & Accounts Committee as part of regular Internal Audit Progress reports.

Extract from It's a Risky Business (CIPFA, 2005)

Organisations Risk Maturity	Approach to Risk Management	Internal Audit Strategic Response	Internal Audit Work Covers
Risk Enabled LEVEL 5	Risk management and controls assurance policy embedded into organisational culture and operations	Use management assessment of risk for audit planning as appropriate	Review risk management processes to confirm continued reliance can be placed upon them
Risk Managed LEVEL 4	Organisation wide approach to risk management communicated and implemented	Use management assessment of risk for audit planning as appropriate	Review risk management processes to confirm reliance can be placed upon them
Risk Defined LEVEL 3	Strategy, policies, and risk appetite defined	Incorporate management risk assessment into audit plan but use audit assessment of risk to check comprehensive	Liaise with risk management function/facilitate risk assessments. Review approach for adequacy and completeness
Risk Aware LEVEL 2	Some areas risk aware, probably due to culture, history or staff in post	Rely on audit assessment of risk	Promote organisation-wide approach to risk management. Process map to identify key risks and gain management approval of audit risk assessment
Risk Naïve LEVEL 1	No formal approach developed	Rely on audit assessment of risk	Promote organisation-wide approach to risk management. Process map to identify key risks and gain management approval of audit risk assessment

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1 Introduction (Cont.)

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 risks 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 comply with best practice as defined by CIPFA in the Code of Practice 2006.
- Better integrate the outcomes and other information gathered as part, of the internal audit process, with the Council's risk management process.
- Maintain ongoing effective relationships with the Council's 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.
- 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 Council's processes.
- Contribute to the development and maintenance of an effective counter fraud culture within the Council.

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2 Content of the Audit Plan

Audit Resources

It is anticipated that the Central Midlands Audit Partnership will provide the Council 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 Council. 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 new approach will result in more efficient ways of undertaking, documenting and managing the audit services. This will lead to a reduction in the number of days required for audit reviews to deliver the required assurances to management, as more audit work will be achieved within a given resource allocation than would have been the case in previous years.

The Council's planned audit coverage should not experience reductions or additional costs through long-term absences or vacancies, etc. and will benefit from the specialist audit skills and experience already contained within the Partnership (e.g. computer auditing) which was previously only available at a premium.

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 Council. This contingency has been increased to address the anticipated increase in requests to evaluate proposed new processes deriving from the Council's transformation agenda.
- **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 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, but given the level of coverage in recent years we have set the contingency of days to approx. 5% of days available.

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2 Content of the Audit Plan (Cont.)

Plan Contingencies (Cont.)

- **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** - The section has a number of incomplete audits from the 2011/12 Plan to conclude in the 2012/13 Plan. Accordingly, the Plan contains an estimate of time necessary to complete each unfinished audit from the previous year.

Types of Audit Work

Key Financial Systems Audit - The main area for internal audit work is the Corporate Services 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. 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 Main Accounting System, Fixed Assets, 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.

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, Virtualisation, Telecommunications and IT Telephony, Remote Access Solutions

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2 Content of the Audit Plan (Cont.)

Types of Audit Work

(Citrix) amongst others. Infrastructure audits help provide assurance that the Council's private network is protected from internet attacks, unauthorised or inappropriate access via local or remote attacks, and also ensure the Council 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.

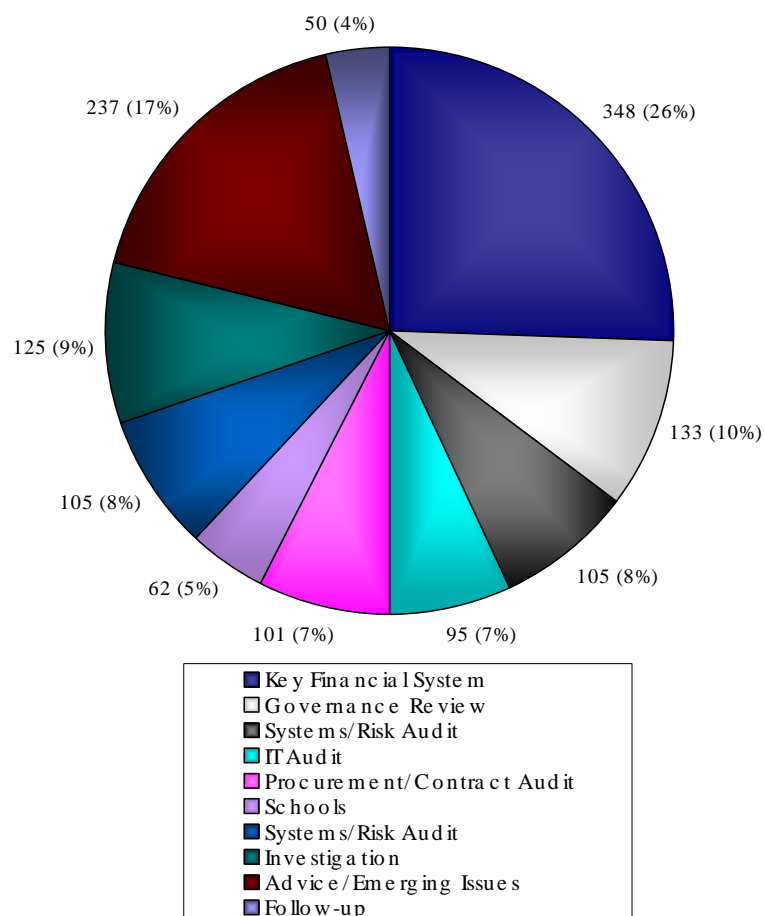
Governance Reviews - The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled, and by which it accounts to, engages with and leads the community. It includes arrangements to monitor the achievement of its strategic objectives 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 Council's governance framework by looking at corporate systems such as Risk Management, Health & Safety, Data Quality, Anti-Fraud etc.

Procurement/Contract Audit - Local authorities collectively spend around £40 billion a year on purchasing goods, works and services from external parties. 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 authority'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).

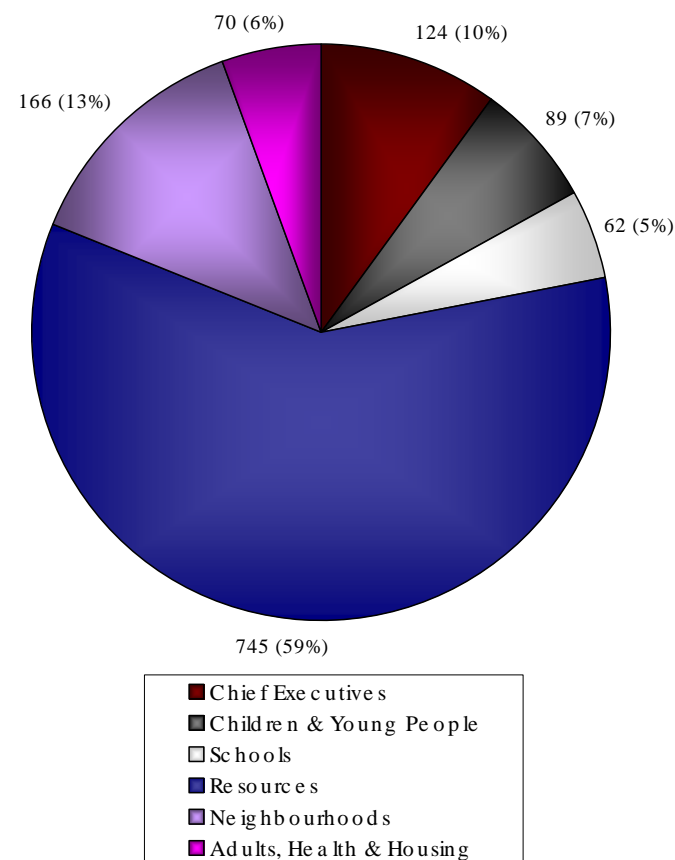
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3 Overview Charts of Planned Coverage

Derby City Council
Internal Audit Plan 2012-13
Day Allocation per type of Audit



Derby City Council
Internal Audit Plan 2012-13
Days Allocated to each
Department



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4 Detailed Audit Plan Proposal

Derby City Council – Audit Plan 2012-13	Audit Risk Score	Audit Risk Rating	Plan Days	Type of Audit
Chief Executives				
One Derby One Council - Transformation Process 2012-13	70	High	40	Governance Review
PI Self Assessment 2012-13	41	Medium	10	Governance Review
Economic Regeneration	58	High	20	Systems/ Risk Audit
Investigations	-	-	25	
Advice / Emerging Issues	-	-	20	
Follow-ups	-	-	5	
Incomplete Audits B/fwd from 2011-12	-	-	4	
Chief Executives Total Days			124	
Children & Young People				
Section 17 Payments	46	Medium	20	Systems/ Risk Audit
Investigations	-	-	25	
Advice / Emerging Issues	-	-	20	
Follow-ups	-	-	5	
Incomplete Audits B/fwd from 2011-12	-	-	19	
Children & Young People Total Days			89	
Schools				
28 School SFVS Reviews	-	-	56	Schools
Incomplete Audits B/fwd from 2011-12	-	-	6	
Schools Total Days			62	
Resources				
Payroll 2012-13	57	High	25	Key Financial System
Fixed Assets 2012-13	56	High	20	Key Financial System
Treasury Management 2012-13	61	High	15	Key Financial System
Main Accounting System 2012-13	63	High	30	Key Financial System
Teachers Pension Return TR17 2011-12	33	Low	10	Key Financial System
Procurement (Contracts Register)	67	High	20	Procurement/Contract Audit

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Taxation	50	Medium	20	Systems/ Risk Audit
Information Governance	50	Medium	20	IT Audit
Audit Risk Assessment & Planning	-	-	30	Advice / Emerging Issues
Audit and Accounts Committee - Reports	-	-	25	Advice / Emerging Issues
Managed Audit Issues	-	-	2	Advice / Emerging Issues
Data Matching 2012-13	-	-	50	Governance Review
National Fraud Initiative 2012-13	-	-	10	Governance Review
Internal Groups 2012-13	-	-	20	Advice / Emerging Issues
Creditors 2012-13	44	Medium	25	Key Financial System
Debtors 2012-13	55	High	25	Key Financial System
Council Tax 2012-13	57	High	20	Key Financial System
NNDR 2012-13	56	High	20	Key Financial System
Cashiers 2012-13	49	Medium	20	Key Financial System
Housing & Council Tax Benefits 2012-13	59	High	30	Key Financial System
IT Application - Oracle	55	High	25	IT Audit
IT Application - Academy	55	High	25	IT Audit
IT Transformation Programme	69	High	25	IT Audit
Investigations	-	-	25	
Advice / Emerging Issues	-	-	80	
Follow-ups	-	-	30	
Incomplete Audits B/fwd from 2011-12	-	-	98	
Resources Total Days			745	
Neighbourhoods				
Carbon Trading	35	Medium	5	Key Financial System
6C Derby Housing Market Area Growth Fund	35	Medium	5	Key Financial System
Sports Arena Contract	63	High	30	Procurement/Contract Audit
Waste Management	53	Medium	25	Systems/ Risk Audit
Investigations	-	-	25	
Advice / Emerging Issues	-	-	20	
Follow-ups	-	-	5	
Incomplete Audits B/fwd from 2011-12	-	-	51	
Neighbourhoods Total Days			166	

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Adults, Health & Housing			
Continuing Care	41	Medium	20
Investigations	-	-	25
Advice / Emerging Issues	-	-	20
Follow-ups	-	-	5
Incomplete Audits B/fwd from 2011-12	-	-	0
Adults, Health & Housing Total Days			70
Derby City Council Total Days			1256