

## **INTERNAL AUDIT PLAN 2011/12**

### **SUMMARY**

- 1.1 The CIPFA Code of Practice for Internal Audit in Local Government recommends that Internal Audit operate to an Audit Plan.
- 1.2 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.
- 1.3 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.
- 1.4 The audit work planned for 2011/12 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 and Accounts Committee on an annual basis.

### **RECOMMENDATION**

- 2.1 To consider and approve the 2011/12 internal audit plan.

### **REASONS FOR RECOMMENDATION**

- 3.1 In order that members of the Audit and Accounts Committee can review, 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.

### **SUPPORTING INFORMATION**

- 4.1 The Internal Audit Plan for 2011/12 is shown at Appendix 2. The total planned allocation of productive time is 2,197 audit days. The Plan for 2010/11 was for 2,123 days.

- 4.2 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. The Safeguarding Children audit from the 2010/11 Plan has been deferred to the 2011/12 Plan to avoid clashing with an Ofsted inspection of the same area.
- 4.3 The effectiveness and maturity of risk management within the Council determines Internal Audit's approach to audit planning. Where a Council has effective risk management processes embedded within the organisation, we would be able to use management's assessments of risks to inform the Audit Plan.
- 4.4 Derby City Council's risk management process is not considered sufficiently mature to use as a basis for audit planning. Accordingly, prioritisation of new audit work is based on our own 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.
- 4.5 A copy of individual directorate plans was sent to each directorate management team to provide the opportunity for comment. Individual Service Directors have contacted the Head of Audit and Risk Management for clarification on specific issues. The overall draft audit plan went to Chief Officer Group for consideration on 15 June.
- 4.6 As highlighted last year, it is now proposed that Derby City Council and South Derbyshire District Council will operate a shared Internal Audit service for an initial duration of five years. The Partnership will operate under the name of the Central Midlands Audit Partnership and will be a new entity to deliver Internal Audit services to both authorities replacing the current separate sections. Talks are still ongoing with Amber Valley Borough Council regarding the provision of a full internal audit service to them.
- 4.7 In the interim, Derby City Council will continue to provide a set proportion of the Internal Audit coverage at both Amber Valley Borough Council and South Derbyshire District Council on a contractual basis. Also, longstanding agreements to provide Internal Audit coverage for both Derby Homes and Derbyshire Fire Authority will continue.

### **Resources Directorate**

- 4.8 The main area for internal audit work is the Resources Directorate 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 directorate 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.

- 4.9 e-Forms (Payroll) – The payroll process is making increasing use of the e-forms module to facilitate input to the payroll system. This assignment will scrutinise the design and application of the control system, which ensures the accuracy, validity and integrity of the data processed.
- 4.10 Business Support Hubs – The Council has recently established Business Support Hubs, centralising many of the administrative functions, including the booking of accommodation and rail and air tickets, the opening of tenders, petty cash reimbursement, preparation of cash for banking and the ordering of stationery supplies and stock control. This audit aims to check how any revised procedures are being implemented throughout the Hubs and ensure that controls are operating effectively.
- 4.11 Registrars – Income – The Derby Register Office collects income in respect of the registration of births, deaths and marriages and attendance of Registrars at civil ceremonies at approved venues. In 2010/11 income totalling over £400,000 was collected by the service. This income stream has not been audited for over 10 years and not since the service moved to its current location on the Market Place. The Home Office has certain responsibilities over Register Offices and perform their own checks on more technical issues.
- 4.12 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. The aim for 2011/12 is to cover:
- VOIP Security Assessment – VoIP has now been operational for several years at the Council and has recently been rolled out to the majority of users. VoIP is still a fairly new technology to computing and because of this, faces many high risks. There are numerous vulnerabilities that face VoIP setups if they are not correctly configured such as call tapping and remote access to voicemail, spoof calling and Denial of Service attacks. Not only is it important to ensure that the VoIP infrastructure is correctly configured to ensure it is secure, it must also be reliable and be able to deal with any problems that arise. Therefore this audit will not only focus on the potential security weaknesses of VoIP but at redundancy, backup and restore procedures.
  - Workstation Security & Management Operations – Workstations and their installed client side applications are common targets for exploitation to gain unauthorised access into private networks. Any internet enabled device with a mail client and other 3<sup>rd</sup> party software poses a significant risk, with indications that client side exploits are on the increase. The physical security of such devices is typically less secure than that of servers in secure data centres, combined with poor practice from users saving sensitive data locally on unencrypted disks, non MS software that is difficult to patch corporately, all of which make workstation devices a high risk area. Areas of focus need to be effective security controls administered and configured through central policies, client management, client administration, monitoring of inappropriate materials stored on local discs, up to date hardware and management (up to date drivers etc), and software licensing and management.
  - Patch Management - Patch management refers to the way that security updates are applied to software installed on computers in order to address the latest security vulnerabilities that may be affecting them. Every piece of software on Council computers and Servers has the potential for a patch to be released

which would create a need for this to be applied to that software on every device using it. Whilst this happens with some software automatically (windows XP through WSUS for example) there are hundreds of other pieces of software where this process is not automated. This increases the risk that patches may not be applied in a timely manner or may not be applied at all. There has been an increase of late where exploits have been targeting 3rd party software rather than Operating Systems because there is a greater chance that the Operating System will up to date and therefore more secure. This audit will focus on web facing Servers as they have a greater exposure, and therefore greater risk of being exploited by attackers. Focus will also be on client side patching and the contractual agreements with 3rd parties on who is responsible for patching certain pieces of software like Oracle for example.

- Media Sanitization Compliance – The Council has a media sanitization contract with a third party that specifically deals with the removal and safe destruction of computing equipment. It is vital that redundant computing equipment is properly destroyed as if it is not and it falls in the wrong hands it could be seen as breach of the Data Protection Act. Audit has given advice on the internal controls relating to redundant computing equipment but the 3rd party has never been checked to ensure that they are disposing of our equipment to our needs. This audit will help to ensure that the 3rd party contractor is disposing of our computing equipment to our satisfaction to ensure that no potential sensitive data can be leaked.
- Smartphone Security and Management - Smartphone's can essentially be seen as an extension to a user's desktop in terms of storage of data, security of data, and therefore should be secured appropriately to prevent unauthorised access to the device and its stored/cached information. Due to their purpose, mobility, and extensive features, they become a higher risk IT asset. In addition to local storage, data in transit (to and from the device) must also be appropriately managed and secure. Aside from security of data held on or transmitted to or from the device, there is a requirement for effective auditing of the device, SIM management, monitoring of calls, management of applications, monitoring and lock down of web browsing etc. Also, the devices must be effectively managed and administered through effective IT policies and application control policies, disaster policies must be enforced to minimize the impact were a device to be lost or stolen (such as remote wiping, failed login wipes etc).
- Anti-Virus – Anti-virus should be installed on every device that connects to the corporate network. However it is no use having anti-virus installed if it is not up to date with the latest virus definitions. Rather like the patch management audit, this audit will focus on ensuring that all devices have the most up to date definitions. It will also involve looking at exception policies that may be applied to certain devices to ensure they are not posing a security threat to the network, how often virus scans are taking place and how the anti-virus solution is managed and administered.

4.13 Internal Audit has actively participated in the Council's proactive anti-fraud and corruption work for a number of years. In 2011/12 we intend to continue to enhance the anti-fraud work undertaken on the prevention, detection and deterrence of fraud in the following audit work:

- Internal Data Matching / Continuous Auditing – Work will continue to refine the data analysis process. Resulting matches will be used to identify irregularities, weaknesses in data quality, error and fraud. The ongoing exercise will give

assurance that the key financial controls are operating effectively and will provide source data for 2011/12 audits.

- National Fraud Initiative (NFI) – Internal Audit will continue to co-ordinate and support this work on behalf of the Council. 2011/12 will see checks completed on the 2010/11 data releases.
- Internal Groups – Members of the Audit team attend various internal groups to provide advice on existing and proposed systems of internal control. These groups preside over many different Council functions at either a strategic or tactical level (e.g. Corporate Fraud Group, ICT Strategy Group, Control Review Group, Carbon Reduction Group etc.)

4.14 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.

### **Chief Executive's Office**

4.15 Performance Indicators - Good data quality is vital to support effective decision making at all levels and the Council are required to have effective arrangements in place for the monitoring and review of data quality. As in previous years, Internal Audit reviews the accuracy and completeness of performance information. Our risk assessment of all the Council's key indicators has highlighted a number of performance indicators that require an audit review. The time planned for these audits is included in each department's time allocation.

4.16 one Derby one council - Transformation Process – Internal Audit will continue to contribute to the assurance element of this programme by attending the Transformation and Process Improvement Boards and will review the system changes and benefits realised by the transformation process.

4.17 Single Programme Grant Certification – Single Programme funding is used to create and support businesses, create and safeguard jobs, improve skills in the workforce and provide infrastructure for businesses to thrive. In 2009/10 projects in Derby claimed over £3m in funding from the East Midland Development Agency (EMDA). The City and Neighbourhood Partnership (Funding Co-ordination) is responsible for managing the process from receiving and approving applications from projects and making payments to projects. EMDA are responsible for reviewing funding claims and instructing the City and Neighbourhood Partnership to raise these payments. All records, however, are maintained by the City and Neighbourhood Partnership. It is a requirement to provide EMDA's auditors, the National Audit Office, with sufficient audit evidence an annual audit statement based on these records. It is expected that this grant will cease in 2011/12 and this audit will cover the remaining grant payments made.

## **Children and Young People**

- 4.18 DfE issued a new standard for schools to achieve in managing their finances. The Schools Financial Value Standard (SFVS) is a variation of the Financial Management Standards in Schools (FMSiS). The SFVS places greater emphasis on the role of schools' governing bodies in ensuring proper management of schools' finances to achieve value for money. The SFVS requires schools to undertake a self assessment of their arrangements for governance and financial control, by responding to set questions on an annual basis, and submitting this with supporting evidence to the LA. Our audit will seek to evaluate the responses and supporting evidence provided by a sample of schools in their submission, to determine whether the schools are working to the standard and thus providing value for money. For 2011/12, the schools that were due a review on the three year FMSiS rolling programme will be reviewed. We will also be doing development work to ensure our audit approach reflects the requirements of the new regime.
- 4.19 An audit postponed from last year included in this year's plan is:
- Safeguarding Children – We intend to supplement the work that was undertaken in this area in the 2008-9 Audit Plan. Our original coverage of this subject matter focused on the Council's strategic approach to safeguarding children. This year we intend to focus on Child Protection training, CRB checks as well as reviewing the system for reporting and following up any child protection referrals. This audit was postponed from 2010-11 due to the Ofsted inspection.
- 4.20 Fostering & Adoption - The Fostering and Adoption service is an integral part of the Derby City Council Children and Young People's directorate and an area of high spend. Foster Care provision is a service under pressure because of the low number of people applying to become carers.
- 4.21 Tribal module (Children in public care) IT System - The audit on this system was suggested by the Director of ICT as an area that hadn't received much scrutiny. We will focus on the various layers of the System, i.e. the application and database servers. We will cover both technical and Systems Administration, and include areas such as account management and audit and accountability on all tiers of the System.

## **Neighbourhoods**

- 4.22 6C Derby Housing Market Area Growth Fund – Certification – The Department for Communities and Local Government (CLG) Funds 30 Housing Market Area (HMA) projects across Derby City, Amber Valley and South Derbyshire. Internal Audit is required to scrutinise expenditure incurred per financial year and give assurance to the regional HMA in Leicester that this has been appropriate and in accordance with grant conditions. Leicester City Council report our assurances as well as theirs and Nottinghamshire's HMA to CLG
- 4.23 Carbon Reduction Commitment – Certification - The Chief Officer Group is to act as project board for this scheme. The Council must set targets to reduce carbon and report on these. Penalties are imposable for poor performance. There is also a requirement to purchase automatic meter readers which could cost around £300k. Last year (2010/11) we ensured that the governance requirements were in place and preparations had been made in readiness to begin 'trading'.

- 4.24 Licensing – A source of income for the Council which also has an inspection element to ensure e.g. premises are appropriately covered by licence conditions in order that the public are protected. We will ensure fees are charged and collected correctly, that a programme of inspections is in place and that appropriate methods are in place to prosecute unlicensed premises/individuals.
- 4.25 Bereavement Services – Bereavement services are a sensitive area that was last reviewed by internal audit in 2001. The crematorium at Markeaton carries out around 3000 cremations per year generating a constant stream of income.
- 4.26 Health & Safety – Health and Safety is an integral part of corporate governance and risk management and has a significant part to play in ensuring the council does all that in can to minimise potential risks on a day to day basis. The service has not been reviewed for several years and will seek to gain assurance that the council is operating in accordance with HSE regulations, Health and Safety training is delivered to employees across the council and that routine inspections are carried out on a regular basis.
- 4.27 Highways Maintenance Contract - Derby City Council, as Highway Authority, has the maintenance responsibility for around 722km (448 miles) of adopted roads, pavements, verges and cycleways within the City boundary. Our risk assessment of the Council's long-term and high value contracts has identified this 5 year contact for £36 million as an area that was worthy of audit scrutiny.
- 4.28 Home to School Transport – The Council's home to school transport policy is to provide help with transport for full-time infant, junior and secondary school pupils to the end of statutory school age who do not live within walking distance of their normal area school. We intend to focus on the controls designed to monitor client eligibility and the ongoing contract maintenance to ensure that the Council are achieving value for money from the service provider.
- 4.29 Civica IT System - The audit on this system was suggested by the Director of ICT as an area that hadn't received much scrutiny. We will focus on the various layers of the System, i.e. the application and database servers. We will cover both technical and Systems Administration, and include areas such as account management and audit and accountability on all tiers of the System.
- 4.30 Planning Portal IT System - This system is responsible for storing, monitoring and logging all planning applications. The Planning Portal system was identified as a media risk system in our IT Applications Risk Assessment. This was due to the fact that the system contains commercially sensitive information, it has not previously been audited and there is a high business dependence on the system. We will focus on the various layers of the System, i.e. the application and database servers. We will cover both technical and Systems Administration, and include areas such as account management and audit and accountability on all tiers of the System.

### **Adults, Health & Housing**

- 4.31 Residential Care Charges - A complex area which involves our own care homes and those in the private sector. Service users are means tested and may be required to make a contribution towards their costs. There are thresholds of income or capital and there may be issues around the disposal of capital to avoid being over the thresholds. Charges for service users amount to £5.5 million per annum.

- 4.32 Personalisation - The Personalisation agenda gives the service user a greater choice and more control over managing individual budgets and procuring the services they need. The Adults, Health and Housing directorate is challenged in managing associated risks and at the same time providing a more customer focused service to drive the personalisation agenda.
- 4.33 Arbitras IT System – The Arbitras system is used to manage the Council’s housing register, choice based lettings scheme, and homelessness register. These are the three main functions of the council’s retained housing services after the formation of Derby Homes. From 2010, all local authorities must offer a choice based lettings scheme (CBL). The Council also has a statutory obligation to house homeless people. The System is managed and hosted externally over the Internet adding to the Systems threat exposure, and used by over 230 users across 15 organisations. The system contains personal information on over 20,000 households, as well as information on their housing needs and priorities. Personal information is stored of all applicants, including evidence of identification to support applications, such as scanned copies of passports and NI cards. These factors make the application high risk and a high level of security assurance is required where Council customer data is accessed, transmitted and stored.
- 4.34 Supporting People- The Council provides housing related support services in response to local need through the Supporting People programme. The budget for Supporting People is in excess of £10m. The audit will review the contractual and monitoring arrangements with the service providers to ensure the area is adequately controlled. This area has not been the subject of a major audit since 2005.

#### **Other Audit Activity**

- 4.35 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 decreased the contingency of days from 12% of days available to approx. 7.5%.
  - 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 planned to develop a recommendation tracking database, which will allow us 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 2010/11 Plan to conclude in the 2011/12 Plan. Accordingly, the Plan contains an estimate of time necessary to complete each unfinished audit from the previous year.

<b>OTHER OPTIONS CONSIDERED</b>
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5.1 N/A

**This report has been approved by the following officers:**

<b>Legal officer</b>	n/a
<b>Financial officer</b>	n/a
<b>Human Resources officer</b>	n/a
<b>Service Director(s)</b>	n/a
<b>Other(s)</b>	n/a

<b>For more information contact:</b>	Richard Boneham, Head of Audit and Risk Management, 01332 643280
<b>Background papers:</b>	richard.boneham@derby.gov.uk None
<b>List of appendices:</b>	Appendix 1 – Implications Appendix 2 – Draft Internal Audit Plan 2011/12

<b>IMPLICATIONS</b>
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**Financial and Value for Money**

- 1.1 It is projected that the operation of a shared audit service will initially generate budget savings of approximately 9%

**Legal**

- 2.1 Under the Accounts and Audit (England) Regulations 2011, the Council is required to maintain an effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.

**Personnel**

- 3.1 TUPE Regulations will apply to any staff transferring to Derby City Council as the Host Authority.

**Equalities Impact**

- 4.1 None directly arising.

**Health and Safety**

- 5.1 None directly arising.

**Environmental Sustainability**

- 6.1 None directly arising.

**Asset Management**

- 7.1 None directly arising.

**Risk Management**

- 8.1 Internal Audit provides the organisation with objective assurance on whether the major business risks are being managed appropriately and provides assurance that the risk management and internal control framework is operating effectively.

**Corporate objectives and priorities for change**

- 9.1 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'.

<b>Internal Audit Activity</b>	<b>Annual Plan Days</b>
<b>Chief Executives</b>	
One Derby One Council - Transformation Process	30.00
Performance Indicator - Self Assessment	16.00
Single Programme Grant Certification	5.00
CEx B/Fwd Audits	0.00
CEx Proactive Fraud / Investigations	33.00
CEx Advice / Emerging Issues	35.00
CEx Follow-up	10.00
<b>Sub Total</b>	<b>129.00</b>
<b>Children and Young People's</b>	
School Programme Development & Maintenance	30.00
School Audits	75.00
Safeguarding Children	25.00
Fostering & Adoption	25.00
Performance Indicator - Safeguarding Children	4.00
The Tribal module (Children in public care) IT Application	15.00
CYP B/Fwd Audits	6.00
CYP Investigations	33.00
CYP Advice / Emerging Issues	35.00
CYP Follow-up	10.00
<b>Sub Total</b>	<b>258.00</b>
<b>Resources</b>	
e-Forms (Payroll)	20.00
Payroll	30.00
Fixed Assets	20.00
Treasury Management	20.00
Main Accounting System	30.00
Teachers Pension Return TR17	20.00
Business Hub	10.00
Data Matching	58.00
National Fraud Initiative	20.00
Internal Groups	25.00
Creditors	25.00
Debtors	25.00
Council Tax	25.00
NNDR	20.00
Cashiers	20.00
Council Tax & Housing Benefits	40.00
VOIP Security Assessment	25.00
Workstation Security & Management Operations	25.00
Patch Management	10.00
Media Sanitization Compliance	10.00
Smartphone Security and Management	25.00
Anti-Virus	15.00
Registrars - Income	10.00
Performance Indicator - Sickness Absence	4.00
Performance Indicator - Derby Direct	4.00
RES B/Fwd Audits	90.00
RES Investigations	33.00
RES Advice / Emerging Issues	35.00
RES Follow-up	10.00
<b>Sub Total</b>	<b>704.00</b>

<b>Internal Audit Activity</b>	<b>Annual Plan Days</b>
<b>Neighbourhoods</b>	
6C Derby Housing Market Area Growth Fund	5.00
Carbon Reduction Commitment - Certification	10.00
Licensing	25.00
Performance Indicator - Leisure & Culture	4.00
Performance Indicator - Streetpride	4.00
Bereavement Services	25.00
Health & Safety	25.00
Highways Maintenance Contract	30.00
Home to School Transport	25.00
Civica (previously known as Flare) IT Application	15.00
Planning Portal IT Application	15.00
NBH B/Fwd Audits	25.00
NBH Investigations	33.00
NBH Advice / Emerging Issues	35.00
NBH Follow-up	10.00
<b>Sub Total</b>	<b>286.00</b>
<b>Adults, Health &amp; Housing</b>	
Performance Indicator - TBC	4.00
Residential Care Charges	25.00
Personalisation	30.00
AHH B/Fwd Audits	1.00
AHH Investigations	33.00
AAH Advice / Emerging Issues	35.00
AAH Follow-up	10.00
<b>Sub Total</b>	<b>167.00</b>
<b>Other External Bodies</b>	
Derby Homes	138.00
Derbyshire Fire & Rescue Service	66.00
Amber Valley BC	160.00
South Derbyshire DC	289.00
Other External Bodies	0.00
<b>Sub Total</b>	<b>653.00</b>

<b>SUMMARY</b>	
Chief Executives	129.00
Children and Young People's	258.00
Resources	704.00
Neighbourhoods	286.00
Adults, Health & Housing	167.00
Other External Bodies	653.00
<b>Planned Days</b>	<b>2,197.00</b>