



DERBY CITY COUNCIL

**AUDIT AND ACCOUNTS
COMMITTEE
25 JUNE 2009**

ITEM 13

Report of the Head of Audit and
Risk Management

INTERNAL AUDIT PLAN 2009/10

RECOMMENDATION

- 1.1 To approve the 2009/10 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 2009/10 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 2009/10 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 2009/10 Plan

- 2.3 The Internal Audit Plan for 2009/10 is shown at Appendix 2. The total planned allocation of productive time is 1,932 audit days. The Plan for 2008/9 was for 1,940 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. Deferrals were made from the 2008/9 Plan to the 2009/10 Plan and 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.
- 2.6 The Chief Executive requested that Internal Audit should adopt a "back to basics" focus for the coming year's Plan. He emphasised the need for the fundamentals of financial control to be in situ. He felt that particular attention should be given to ensuring that appropriate separations of duties exist within our key financial systems. We have borne this request in mind when planning and scoping audit coverage in the 2009/10 Audit Plan.

Resources Department

- 2.7 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. 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, 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.
- 2.8 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.
- 2.9 An increasing number of local authority grant claims are now requiring Internal Audit coverage or certification. We have yet been unable to identify which grants will require Internal Audit input. Accordingly, we have set aside a contingency of days which, once the grant work has been identified, will be included in the relevant department's time allocation.
- 2.10 Controlled Stationery – Weaknesses in the Council's systems for controlling financial stationery were identified during recent fraud investigations. Accordingly, we have planned to identify and evaluate all the financial stationery that needs to be securely held and controlled centrally.
- 2.11 Officers' Expenses – Given the recent national focus on expenses claims and the subsequent public interest, we have planned to undertake a probity audit into officers' expenses.
- 2.12 Disciplinary & Dismissals Policy – A number of Audit staff have recently obtained professional qualifications in Investigatory Practices which has identified best practice guidance on the disciplinary investigations. Accordingly, we have planned to

measure the Council's current policies and procedures in relation to the investigation of employees.

- 2.13 Pre-employment Checks – A recent fraud investigation has highlighted weaknesses in the Council's recruitment process, which have not prevented inappropriate or unqualified individuals from taking up positions with the Council. Accordingly, we aim to provide best practice advice on the appropriate pre-employment checks the Council should undertake.
- 2.14 Income Risk Assessment - We have a responsibility to ensure that Audit coverage follows a justified risk management process to aid in protecting the Council's income from security related risks. To ensure that we focus on the correct areas of key risk, the Council's income sources need to be regularly monitored and risk assessed to identify all high risk income collections. An element of this work will be a control risk self assessment to identify what key financial controls are already in place. As well as providing us with a certain amount of assurance, this will also determine future Audit coverage on income collections.
- 2.15 Risk Management – One of the cornerstones of good governance is a robust and embedded system of risk management. Internal Audit intends to review the Council's policies and practices in line with best practice guidelines.
- 2.16 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 2009/10 is to cover:
- Oracle Financials – The Council's General Ledger, Creditors and Debtors systems are all part of the Oracle Financials package. As all three systems have been assessed as high risk areas, we plan to provide further IT Audit coverage of this system. We intend to use proprietary software to detect security risks and vulnerabilities within Oracle Applications.
 - Vision – The Council's Human Resources and Payroll functions all operate on the Vision system. With the amount of sensitive data being held on this system being made available remotely, our IT Applications Risk Assessment scored the Vision system as the joint highest risk system within the Council. We have planned to focus on both internal and external access to the system. We will evaluate both technical and Systems Administration controls such as account management and audit and accountability. Controls governing the remote access to Vision will also be evaluated.
 - Backup Procedures & Security - The recent service support transition from Capita to Serco meant that the Council's hardware had to be moved to different locations and many services were taken off-line. This raised some concerns on whether the backup systems that are in place are adequate to ensure that any hardware or software failure do not result in prolonged system down-time or complete data loss if backups can not be used. We will look at the Council wide procedures in place for backing up corporate data to ensure that the Council can adequately recover data from its backup systems. We will also be focusing on the security of the backups to ensure that they are safe from attack and loss.
 - Government Connect - Audit was asked by the Head of Strategic Infrastructure to ensure that the Council's internal operating procedures and controls relating to the Code of Connection (CoCo) were fit for purpose. One of the requirements of

the Government Connect CoCo is that Local Authorities need to ensure that an IT Health Check is performed every year. We have planned to perform an IT Health Check as part of the 2009-10 Audit Plan.

- Virtual Private Network (VPN) - A virtual private network (VPN) is a network that uses the Internet, to provide secure remote access to the Council's network. It is a method often used by software support services to maintain the Council's systems. Once we have permitted a VPN connection, the Council has very little control over the remote user's actions and they usually have the highest level privileges. We intend to evaluate the procedures that are currently in place for granting VPN connections, specifically for permanent connections, to ensure that they are necessary and adequately governed. We will also look at the VPN itself to ensure that it is adequately secured to prevent malicious attacks.
- SQL Injection/XSS – The Council recently suffered an SQL Injection attack against one of the in-house developed web applications. Hackers use these types of attacks to access and modify information in the databases that reside behind our web pages. Accordingly, we have planned to test the current register of custom developed web apps for the major web application vulnerabilities such as XSS and injection flaws using open source and commercial tools.

2.17 Internal Audit has actively participated in the Council's proactive anti-fraud and corruption work for a number of years. In 2009/10 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 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.
- Computer Assisted Audit Techniques (CAATs) – Internal Audit uses specialist software in its anti-fraud and corruption work. We have a continuing requirement to ensure that this software is used to its full potential. Accordingly, we have planned time to ensure that our data interrogation and forensic computing software packages are fit for purpose and properly utilised.
- National Fraud Initiative (NFI) 2009: Single Persons Discount Extraction – This work incorporates the co-ordination of the extraction of the data submission in relation to Single Persons Discount for Council Tax.

2.18 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

2.19 The Financial Management Standard in Schools (FMSiS) requires that all DCC schools are assessed over a 3 year time period. In the 2009/10 Audit Plan we are required to re-assess all secondary schools, as they were initially assessed in 2006/7, and assess those primary, nursery and special schools that have not yet been assessed.

- 2.20 The ContactPoint database will be the quick way for a practitioner to find out who else is working with the same child or young person, making it easier to deliver more coordinated support. It is a key part of the Every Child Matters programme to improve outcomes for children. Local Authorities will be responsible for the records of children resident in their area. Responsibilities will include service management, systems administration, data management, professional support and administration of local access. The Department for Children, Schools and Families expects Internal Audit to provide assurances on the ContactPoint Team's compliance with the organisational accreditation criteria. Accordingly, Internal Audit has already been working with other Council's from the East Midlands to determine the nature and level of audit coverage required. As a result, we have planned to cover ContactPoint with two separate audits; one looking at the IT controls the other examining the policy and procedural compliance around the organisational accreditation criteria.
- 2.21 Extended Schools – these provide a range of services and activities, often beyond the school day, to help meet the needs of children, their families and the wider community. By 2010 all schools will be providing access to a range of extended services: a varied menu of activities, combined with childcare in primary schools; parenting support; swift and easy referral to targeted and specialist services, and wider community access to ICT, sports and arts facilities, including adult learning. The DCSF has committed £1.3 billion over the next three years to enable this. The income generated by Extended Schools has not been audited previously. The Corporate Director of Children & Young People has not been consulted on the inclusion of this audit in this year's Plan.
- 2.22 An audit postponed from last year included in this year's plan is:
- 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.

Environmental Services

- 2.23 Leisure Centre Income – Due to the level of income collected through the Council's Leisure Centres, audit will examine the income collection, security and banking controls and processes in place at one of the Council's Leisure Centres.
- 2.24 Vehicles and Plant – From recent audit work in relation to the Council's Fixed Asset Register, we have concerns over the quality of information in relation to Council owned vehicles and plant. Accordingly, we have planned to examine the system of controls which ensure that the Department's asset records are complete and accurate.
- 2.25 Parks Cash Handling – The Corporate Director identified parks as an area where he would appreciate some assurance that the cash handling procedures were robust. He highlighted Markeaton Park car parking income as a key area to examine.

Regeneration and Community

- 2.26 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:

- Museums – This area has not received any audit coverage since 2000 and following recent audit work in relation to the Council’s Fixed Asset Register we have concerns over the quality of information in relation to the assets held in the Council’s Museums. Accordingly, we have planned to examine the system of controls which ensure that the Service’s asset records are complete and accurate.
- Planning & Building Control Fees – Audit has not examined these income streams since 2002 and with the introduction of charging for pre-application advice, we have planned to examine the income collection, security and banking processes in operation.
- Section 106 Agreements – Local planning authorities can enter into these legally-binding agreements or planning obligations with landowners in association with the granting of planning permission. They are a way of delivering or addressing matters that are necessary to make a development acceptable in planning terms. They are increasingly used to support the provision of services and infrastructure, such as highways, recreational facilities, education, health and affordable housing. This area has not been audited for many years and we would seek to ensure that agreements are being complied with.

Corporate and Adult Services

2.27 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.
- Anite Swift – This system came out high in our IT Applications Risk Assessment. This was due in part to the sensitivity level of the data, and that it had not been reviewed recently. 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.
- Member Expenses – As with officers’ expenses, given the recent national focus on expenses claims and the subsequent public interest, we have planned to undertake a probity audit into members’ expenses.
- Commercial Rents – Recent Audit activity in relation to Markets income highlighted weaknesses in the control systems for income collection and debt management. We have planned to undertake similar work in relation commercial rent collection and debt management to ensure that the same weaknesses do not also extend to this area.

Other Audit Activity

2.28 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, but given the level of coverage in recent years we have increased the contingency of days from 10% of days available to 15%.
- **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 2008/9 Plan and audits commenced in April/May 2009 to conclude in the 2009/10 Plan. Accordingly, the Plan contains an estimate of time necessary to complete each unfinished audit from the previous year.

2.29 The audit work planned for 2009/10 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.

For more information contact:	Richard Boneham, Head of Audit and Risk Management, 01332 255688 richard.boneham@derby.gov.uk
Background papers:	Internal Audit Risk Assessment
List of appendices:	Appendix 1 - Implications Appendix 2 – Draft Internal Audit Plan 2009/10

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 2009/10

Internal Audit Activity	Annual Plan Days
Regeneration and Community	
DCP NI 116 - Children in Poverty	3.00
CSP NI 18 - Adult Re-offending Rates	2.50
CSP NI 39 - Alcohol Related Hospital Admission	3.00
NI 172 - VAT Registered Business Showing Growth	1.50
NI 9 Use of Public Libraries	1.50
Certification Work	15.00
Museums	25.00
Planning & Building Control Fees	25.00
Section 106 Agreements	25.00
RC B/Fwd Audits	19.00
RC Proactive Fraud / Investigations	58.00
RC Advice / Emerging Issues	10.00
RC Follow-up	10.00
	198.50
Children and Young People's	
FMSiS Assessments 2009/10	130.00
NI Participation in Positive Activities	3.00
NI 112 Under 18 Conception Rate	3.00
LPSA2 Target 1 - Educational Attainment	4.00
Contact Point	50.00
Extended Schools	30.00
Integrated Disabled Children's Service	30.00
C&YP B/Fwd Audits	46.00
C&YP Proactive Fraud / Investigations	58.00
C&YP Advice / Emerging Issues	10.00
C&YP Follow-up	10.00
	374.00
Resources	
Fixed Assets	15.00
Treasury Management	20.00
Main Accounting System	40.00
Teachers Pension Return TR17 2008-9	20.00
Certification Work	10.00
NI 121 - Mortality Rate for Circulatory Diseases Under 75	2.50
NI 152 - Working Age People Out of Work on Benefits	2.50
PI Self Assessment 2009/10	6.00
Creditors	20.00
Debtors	20.00
Council Tax	20.00
NNDR	20.00
Cashiers	15.00
Council Tax & Housing Benefits	40.00
Controlled Stationery	15.00
IT - Oracle Financials Vulnerability Scan	30.00
IT - Vision (online hosting)	25.00
IT - Backup Procedures & Security	25.00
IT - Government Connect	30.00
IT - Virtual Private Network	25.00

IT - SQL Injection/XSS against www.derby.gov.uk	30.00
IT – ContactPoint	30.00
Data matching	60.00
CAATS - Idea & Encase development	25.00
Income Risk Assessment	25.00
Risk Management	20.00
NFI 2009 - Single Persons Discount Extraction	5.00
Payroll	20.00
Officers Expenses	20.00
Disciplinary & Dismissals Policy	25.00
Pre-employment Checks	15.00
Resources B/Fwd Audits	54.00
Resources Proactive Fraud / Investigations	58.00
Resources Advice / Emerging Issues	10.00
Resources Follow-up	10.00
	808.00

Environmental Services

NI 57 - Childrens Participation in Sport	3.00
NI 8 - Adult Participation in Sport	2.50
LPSA2 Target 7 - Participation in Physical Activity	2.00
Parks Cash Handling	25.00
Vehicle and Plant	25.00
Leisure Centres - Income	25.00
ES B/Fwd Audits	15.00
ES Proactive Fraud / Investigations	58.00
ES Advice / Emerging Issues	10.00
ES Follow-up	10.00
	175.50

Corporate and Adult Services

Members Expenses	20.00
Commercial Rents	25.00
Anite Swift Application	25.00
Derby Integrated Community Equipment Services Contract	30.00
Supporting People - 2008/09 certification	10.00
Co-location Fund Grant	5.00
C&AS B/Fwd Audits	18.00
C&AS Proactive Fraud / Investigations	58.00
C&AS Advice / Emerging Issues	10.00
C&AS Follow-up	10.00
	211.00

External Bodies

Derby Homes	100.00
Derbyshire Fire & Rescue Service	60.00
Other External Bodies	5.00
	165.00

SUMMARY

Regeneration and Community	198.50
Children and Young People's	374.00
Resources	808.00
Environmental Services	175.50
Corporate and Adult Services	211.00
External Bodies	165.00
	Planned Days 1,932.00