



## **INTERNAL AUDIT PLAN 2005/6**

### **RECOMMENDATION**

- 1.0 To note the Internal Audit Plan for 2005/6
- 1.2 To refer the report to Scrutiny Management Commission for information.

### **SUPPORTING INFORMATION**

- 2.1 Under the Council's Constitution, the Cabinet is responsible for monitoring performance. Internal audit is an activity reviewing the performance of systems and governance arrangements, and it is therefore appropriate for reports summarising the results of internal audit's review work to be brought back before Cabinet, on a periodic basis. This is provided for within Financial Procedure Rules and continues the practice established in 2003/4.
- 2.2 The accompanying Internal Audit Plan sets out the initial planned programme of audit reviews during 2005/6, the results from which will subsequently be reported back to Cabinet on a half yearly basis.
- 2.3 The focus of the planned audit review work is on key systems, whose failure could pose problems of such a scale to be significant for the Council at the corporate level. There is also a significant element of audits which will focus on issues where the level of risk could compromise the achievement of corporate priorities.
- 2.4 The Plan has been drawn up following a systematic process of risk assessment, carried out by senior internal audit staff but informed by consultation with senior and chief officers and input from the Council's external auditors, PricewaterhouseCoopers (PwC). This process has produced 'audit risk scores' for all the Council's service areas.
- 2.5 The programme will inevitably be subject to some changes during 2005/6, as there will also be a need to react to emerging issues, which cannot be planned for in advance. Achievement of the plan is also dependent upon the scale of resources available to the Internal Audit and Risk Management Section in the year.

- 2.6 Two further reports on Internal Audit will be brought before Cabinet during 2005/6 – a report upon the outcome of 2004/5 audit review work, and an interim report setting out progress against the 2005/6 audit programme.

<b>For more information contact:</b>	Richard Boneham, Head of Audit and Risk Management, 01332 255688
<b>Background papers:</b>	Internal Audit Risk Assessment 2005/6. Risk registers.
<b>List of appendices:</b>	Appendix 1- Implications Appendix 2 - Internal Audit Plan 2005/6

<b>IMPLICATIONS</b>
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**Financial**

- 1.1 The resources required to deliver the Audit Plan are provided for within the 2005/6 revenue budget. There are therefore no additional financial implications from adopting the Audit Plan. The gross cost of the Internal Audit and Risk Management Section in 2005/6 is £512,336.
- 1.2 Certain of the financial risks facing the Council are planned to be the subject of audit attention, in addition to the continuing audit of key financial systems.

**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 Plan 2005/6

April 05

# Internal Audit and Risk Management

## Internal Audit Plan

### 2005/6



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## 1 OVERVIEW

### 1.1 Focus For 2005/6

1.1.1 This Plan sets out details of the planned focus of the Internal Audit and Risk Management Section in 2005/6.

1.1.2 Planning the audit coverage in 2005/6 has taken into account several key developments which will influence not only the nature of audit reviews, but the way the Section operates. The following issues have influenced the 2005/6 Plan:

- The CIPFA Code of Practice for Internal Audit for Local Government in the UK was published in September 2003 and has set 10 Standards that all internal audit sections need to achieve. It also, more importantly, redefines internal audit as “an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation’s objectives....”. The content of the Plan is designed to provide a balanced approach to achieving this, through processes consistent with the CIPFA “Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003”. The 2005/6 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. This is reflected in the 2005/6 Plan. A greater emphasis on corporate risks has been included in the audit planning process. This has involved the use of the Corporate and Departmental Risk Registers to help inform the risk assessment of the Council, as well as focusing upon issues and systems whose failure could pose major risks to the Council as a whole.
- Information technology audit continues to be important. This reflects the extent to which the Council’s key systems are computerised, the importance of local and national initiatives on information technology, and the need to review developments as part of e-Government. The Section makes extensive use of Computer Assisted Audit Techniques within the key audits.

### 1.2 Summary of the 2005/6 Plan Resources

1.2.1 The total planned allocation of productive time is 1,765 audit days. The gross cost of the Internal Audit and Risk Management Section in 2005/6 is £512,336. This gives a composite daily rate for internal audit and risk management of £290.

## 2 AUDIT RISK ASSESSMENT AND PLANNING

### 2.1 Risk Assessment Rationale

- 2.1.1 Prioritisation of audit work is based on a 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. As a development for the 2005/06 Audit Plan these judgements have been fully documented. In addition, the Council's External Auditors, Price Waterhouse Coopers (PwC), have been given the opportunity to comment upon the interpretation of risks.
- 2.1.2 This is a distinctly different methodology to the corporate / departmental risk assessment process undertaken annually. Our risk assessment covers all auditable areas and considers all controllable risks. However, we do include the issues identified by corporate / departmental risk assessments in our methodology.
- 2.1.3 Risk assessment allows us to produce an Audit Needs Assessment and Strategic and Tactical Audit plans.
- 2.1.4 Not all audit work can be conducted in accordance with internal risk assessments. Resources have also to be prioritised to ensure that the Council meets external expectations, even where associated risks are relatively small. An example is the frequency of schools audits.
- 2.1.5 For details of Audit's Risk Assessment Model and how the exercise was undertaken see Appendix B.

## 3 GENERAL AUDIT SERVICES

### 3.1 Emerging Issues

- 3.1.1 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. It is expected that this contingency will be fully used, either to develop new auditable areas in revised audit plans or be included within existing audit areas.

### 3.2 Consultancy / Advice

- 3.2.1 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. Accordingly, a contingency of days has been set-aside in the Plan to provide this service.

### 3.3 Irregularity / Special Investigations

- 3.3.1 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.
- 3.3.2 Effective managerial arrangements for the prevention and detection of fraud and corruption are essential if risk is to be minimised. Internal Auditors play an important role in ensuring that satisfactory control arrangements exist and are working as management intended. Such arrangements should act as a deterrent to anyone considering perpetrating a fraudulent or corrupt act.

### 3.4 Follow-up Audits

- 3.4.1 Internal Audit is committed towards ensuring that its recommendations are acted upon and control improvements are achieved. 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 managements implementation of Audit recommendations.

### 3.5 Brought Forward Jobs

- 3.5.1 The section has a number of incomplete audits from the 2004/5 Plan to conclude in 2005/6. Accordingly, this year's Plan contains the time necessary to complete each unfinished audit from the previous year.

## 4 AUDIT WORK 2005/6

### 4.1 Aims

- 4.1.1 This work will enable Internal Audit to give an opinion on the internal control environment that exists within the Council. It will also contribute to the compilation of the Statement on Internal Control in the Council's annual accounts.

### 4.2 Themes

- 4.2.1 The 2005/6 Plan incorporates those areas of the Council's activities where the overall risk assessment exercise has indicated a higher level of risk.
- 4.2.2 Audits have been categorised according to reporting lines. All planned work is shown within each department's total allocated days as far as possible.

### 4.3 Finance Directorate

- 4.3.1 Responsibility for the Council's fundamental financial systems, which are key to the running of the Council, rests within this Directorate. Hence the majority of audits planned in the Directorate 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.

4.3.2 Audit will review the following:

**Fundamental Financial Systems**

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.

**Managed Audit IT Systems – HR/Payroll, Creditors, Debtors, Council Tax and NNDR**

This area of audit work will supplement the Managed Audit work on the fundamental financial systems by facilitating more efficient and/or effective sampling and testing routines with the help of Computer Assisted Audit Techniques (CAATs).

**National Fraud Initiative (NFI) 2004**

Time has been included in the Plan in respect of the co-ordination role that Internal Audit has in the Audit Commission's NFI 2004 exercise.

4.4 Policy Directorate

4.4.1 Three areas have been selected for audit review in 2005/6 within the Policy Directorate.

- Supporting People is a risky area in terms of the size of the grant and the contracting arrangements with service providers. Internal Audit also needs to review and report on the progress made following the Audit Commission report in December 2004.
- External Funding is another risk area that Internal Audit needs to review in 2005/6 due to the number of funding streams and the amount of funding involved with external organisations managing the projects.
- Youth Offending Service has been included in this year's plan because it has not been reviewed by Internal Audit since its inception. The Audit Commission has highlighted the need for effective governance in such services, therefore, Internal Audit will review the arrangements in place for managing the service.

4.5 Corporate Services Directorate

4.5.1 There are 2 areas identified for review in 2005/6. Markets was included in the 2004/5 Audit Plan, but audit resources were required for specific investigation work (Silverhill) and the Markets audit review had to be postponed until this year. Members Services is the second area for review, as this has not been audited for several years, and as such, Audit needs to review the internal control environment that exists within the section.

#### 4.6 Social Services

4.6.1 The Social Services' Audit Plan will focus on the audit of systems determined by the risk assessment process as high risk and also includes some time for establishment audits.

- Internal control and risk issues within Child Protection and Children in Foster Care have not been previously reviewed by Internal Audit . We therefore need to assess the controls in place to mitigate the risks in service provision.
- Financial assessments has been highlighted as an area where a review of internal controls could aid Social Services management.
- Assessment and Care Management is another area that has had no internal audit review and therefore we need to assess the adequacy of the controls within the systems and procedures.
- Voluntary Sector Liaison and Funding has been included in the Plan given the difficulties encountered in the past over stewardship issues at smaller organisations with limited administrative arrangements.
- Establishment visits have been planned in 2005/6 due to the number of requests from Social Services staff in relation to compliance with financial procedure rules and control issues at a number of Social Services establishments.

#### 4.7 Education Service

4.7.1 Much of the 2005/6 Audit Plan for the Education Service concentrates on controls operating within the schools. Audit will also focus on:

- A review of the controls over the distribution and use of the various funding streams such as the Standards Fund. This is a high risk area due to the level of funding received and because of its impact on Derby Schools.
- 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 claim.
- A review of the controls within the Surestart projects as these have not been audited for several years.
- Student Support was included in the 2004/5 audit plan, but resources were diverted to audit investigation work (see para 4.5.1) and therefore the audit was re-scheduled for 2005/6.
- Visits to Leisure Centres to examine the control environment as they have not been audited for some time.

#### 4.8 Development and Cultural Services

4.8.1 The main departmental systems prioritised for review in 2005/6 are detailed below:

- On-street Parking has been included in this year's plan to review the arrangements in place for the collection of income and to provide advice with regard to the systems and controls that will be required to be put into place in respect of decriminalised parking enforcement in the City.
- Client monitoring has been included for review as it is a major area that impacts on a number of Council objectives, and also has BVPIs associated with it. There is also the governance arrangements in respect of the street cleansing contract following the change in contractor to Commercial Services.
- Waste Disposal has been identified as an area for Internal Audit review because of the new trading powers in respect of landfill targets.
- City Centre Management and Building Control audits have been included following discussions with the Director of Development and Cultural Services, and will be designed to provide the Department with advice on risk and controls in line with best practice.
- Visits will be carried out at several Cultural Division establishments to review the control environments at each one.

#### 4.9 Commercial Services

4.9.1 The risk assessment process has prioritised the Housing Repairs and Maintenance contract as the main focus for audit coverage in 2005/6. This is a core activity for the department and is a large value contract. Other audit work has been included at the request of the Director of Commercial Services to provide advice on risks and controls through the introduction of new systems and procedures or changes to existing systems.

#### 4.10 IT Audits

4.10.1 IT audit is the application of auditing skills to the technological aspects of the Council's business processes. The Council uses a wide range of technology for an increasingly diverse and complex range of business needs. The Internal Audit section will cover the following areas in 2005/6.

##### **Secure Use of Information and Systems – Wireless Network Review**

Wireless networking is one of the fastest growing areas of computer technology. Wireless technology is already being used within the Council and the drive for more effective remote and portable working will ensure the continued rapid growth of this technology. Wireless networks bring with them a whole new layer of security risks. Failure to appropriately secure wireless technology could result in all of the Council's networks becoming compromised, not just the wireless portions. This audit will review the extent and nature of the use of wireless technology within the Council, and examine the controls that are being implemented to ensure this technology is used in a secure manner.

### **Control of IT Infrastructure – IT Site Security**

The Council's information systems are heavily reliant on a relatively small number of IT sites. These sites house critical IT infrastructure components such as data servers and network communications devices. Failure to appropriately address the physical and environmental control of these sites could lead to loss of IT services; damage or destruction of buildings, equipment and IT facilities; inability to sustain business processing; and personal injury or loss of life. This audit will examine the physical and environmental controls necessary to protect these sites against risks such as fire, flooding, power failure, accidental damage, malicious damage and sabotage.

### **Computer Crime/Misuse – Firewall Configuration/Perimeter Protection**

Unauthorised connection to the Council network may lead to fraud, theft of data, breach of legislation, loss of credibility and embarrassment to the organisation. The network can only be protected against malicious attacks if the numerous control devices and tools that make-up the perimeter security system are appropriately configured. This audit will examine the effectiveness of the perimeter protection system and the appropriateness of its configuration.

### **Business Continuity – Disaster Recovery**

This audit will focus on the security and control issues arising from the ICT Division's Disaster Recovery project, which is currently in progress. The existence and application of a suitable disaster recovery programme is a critical element of effective business continuity planning. The failure to plan appropriately for disaster recovery could lead to the Council being unable to operate numerous critical systems in the event of an emergency.

### **Statutory and Corporate Compliance – Compliance with Data Protection Act**

This audit will focus on the controls and procedures which ensure that:

- The Council has an effective Data Protection System.
- The Council's Data Protection systems and procedures are properly and consistently applied with the support of adequate documentation.
- The Council considers its key management systems / standards when developing the Data Protection Systems and the impact of the Data Protection Act in its development of its new business processes.

### **e-Business –Remote Access and Home Working**

A number of e-Derby projects have been instigated that will facilitate home and remote working for Council members and staff. These projects are part of the Council's e-Government strategy and contribute toward the ODPM priority outcome 'Supporting New Ways of Working'. The work currently under way includes pilot and proof of concept projects; infrastructure hardware and software projects; and new policy developments. The remote access and home working solutions developed are likely to represent a major departure

from currently accepted working practices. The Council's reliance on these solutions is likely to increase rapidly with the ongoing implementation of Work-life balance and related initiatives. Weaknesses within these solutions will have the potential for significant impact.

#### 4.11 Contract Audit

4.11.1 It is Audit's responsibility to ensure that management establishes adequate systems to ensure that projects are controlled throughout, from their inception to post completion. The basic audit objectives are to ensure:

- The adherence to and effectiveness of controls over contracting activities, including the adherence to Contract Procedure Rules.
- That contractual arrangements provide the cost effective provision of services.

4.11.2 One of the service developments for Internal Audit in 2005/6 is to examine its approach to Contract Audit. For this reason, the Plan has been limited to 2 reviews:

- A review of Contract Procedure Rules will examine the extent to which the Contract Procedure Rules are being followed throughout the Council.
- A review of the control environment in respect of the Council's Capital Programme.

#### 4.12 Corporate Audits

4.12.1 This covers the audit work in the Plan that is cross-cutting in nature;

- A review of Procurement by Internal Audit was proposed by Scrutiny Management Commission and recommended to Cabinet. The Overlapping Areas of Control and Management - Procurement report of the Commission set out four recommendations one of which was to carry out periodic internal audit reviews of procurement starting in the 2005/6 financial year. Cabinet approved this on 22 February 2005 (304/04). It is intended to consider IT Procurements within this job.
- LPSA – time has been included to provide assurance that the systems are sufficiently robust. There is also a likelihood that Internal Audit may be required to provide assurance on performance levels in relation to the Performance Reward Grant.

#### 4.13 Audit Investigations

4.13.1 The contingency of 120 days set aside for the investigation of fraud, theft or irregularity, is a prudent provision based on previous years' experiences. However, a significant investigation, such as "Silverhill", could use up the majority of that contingency. In such circumstances a review of the Audit Plan would be necessary and jobs / days allocated may need to be revised as appropriate.

#### 4.14 Governance Work

##### **Risk Management**

- 4.14.1 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.
- 4.14.2 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.
- 4.14.3 The Risk Management Officer post is currently vacant, due to the secondment of the current post holder. The vacancy will be partly covered by the use of other Audit staff to provide the risk management advice. A minimum of 81 days has been set aside for auditors to be involved in risk management work in 2005/6. The Head of Audit and Risk Management is currently reviewing alternative options to cover the remainder of the vacancy. It is expected that this will provide a further 100 days of risk management time.
- 4.14.4 Risk Management work will be driven by a Risk Management Development Plan that is currently being produced by the Head of Audit and Risk Management in conjunction with the Council's Strategic Risk Group.

##### **CIPFA Financial Management Model**

- 4.14.5 Internal Audit is taking responsibility for the coordination of the use of the CIPFA FM Model within the Council. By using this self-assessment tool a profile can be developed of the strengths and weaknesses of financial management and how far it is aligned to supporting the Council's strategic goals. A minimum of 35 days has been set aside for this work in 2005/6. The proper management of resources and a sound financial standing enables organisations to achieve their aims and objectives. Financial management is a key component of good governance and the Comprehensive Performance Assessment.

##### **Statement On Internal Control**

- 4.14.6 Regulation 4 of the Accounts and Audit Regulations (2003) requires audited bodies to conduct a review, at least once a year, of the effectiveness of its system of internal control and publish a statement on internal control (SIC) each year with the authority's financial statements. The Head of Audit and Risk Management is the lead officer for the production of the SIC.



## 5 Appendix A – Tactical Plan 2005/6

Audit Area		Annual Plan Days	Audit Risk Score
<b>Finance Directorate</b>			
Corporate Finance			
	Accounting Systems	35	52
	Treasury Management	20	50
	NFI	10	
Financial Services			
	HR / Payroll / Costing	20	53
	Creditors	20	56
	Debtors	15	44
Revenues and Benefits			
	Cashiers	15	56
	Housing Benefits	50	61
	Council Tax	20	61
	NNDR	15	56
Managed Audit IT Systems			
	Payroll	5	
	Debtors	5	
	Creditors	5	
	Council Tax	5	
	NNDR	5	
Other Audit Work			
	Brought Forward Audits	31	
	Follow-up Audits	6	
SUB-TOTAL DAYS		<b>282</b>	
<b>Policy Directorate</b>			
Housing and Advice Services			
	Supporting People	15	46
Community Policy			
	External Funding	20	48
	Youth Offending Service	15	45
Other Audit Work			
	Brought Forward Audits	3	
	Follow-up Audits	3	
SUB-TOTAL DAYS		<b>56</b>	

# Internal Audit and Risk Management

## Internal Audit Plan

### 2005/6



Audit Area	Annual Plan Days	Audit Risk Score
<b>Corporate Services Directorate</b>		
Property Services		
Markets	10	42
Democratic Services		
Members Services	10	39
<b>SUB-TOTAL DAYS</b>	<b>20</b>	
<b>Social Services</b>		
Assessment and Care Planning		
Voluntary Sector Liaison and Funding	20	36
Children and Family Services		
Child Protection	25	58
Children in Foster care	25	55
Establishments - Visits	15	41
Community Care		
Assessment and Care Management	25	57
Assessments and Collections (financial assessments)	25	47
Establishments - Visits	15	41
Other Audit Work		
Brought Forward Audits	21	
Follow-up Audits	15	
<b>SUB-TOTAL DAYS</b>	<b>186</b>	
<b>Education Service</b>		
Schools		
Establishments - Visits	190	
Systems	20	
Lifelong Learning and Community Services		
Sure Start	30	44
Student Support	15	43
Leisure Centres	15	43
Resources and Strategic Planning		
Funding	25	63
HR/Payroll	10	48
Other Audit Work		
Brought Forward Audits	27	
Follow-up Audits	6	
<b>SUB-TOTAL DAYS</b>	<b>338</b>	



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## Internal Audit Plan

### 2005/6



Audit Area		Annual Plan Days	Audit Risk Score
<b>Development and Cultural Services</b>			
Development			
	City Centre Management	5	52
	Building Control	10	41
Highways, Transportation and Waste Management			
	Client Monitoring	25	54
	Waste Disposal	25	57
	On-Street Parking	20	46
Cultural			
	Establishments – Visits	15	
Other Audit Work			
	Brought Forward Audits	4	
	Follow-up Audits	6	
SUB-TOTAL DAYS		<b>110</b>	
<b>Commercial Services</b>			
Finance and Administration			
	Electronic Invoicing – advice	5	
	Business processes (Trading) - advice	5	
Facilities Management			
	Housing Repairs and Maintenance Contract	25	55
Works and Engineering			
	Fleet Management - advice	5	
Other Audit Work			
	Brought Forward Audits	10	
	Follow-up Audits	6	
SUB-TOTAL DAYS		<b>56</b>	
<b>IT Audit</b>			
IT Security and Control			
	Secure Use of Information and Systems	30	54
	Central Control of IT Infrastructure	25	51
	Statutory and Corporate Compliance	15	49
	Computer crime / Misuse	25	47
	Business Continuity	15	51
	e-Business	30	54
Systems Reviews and Developments			
	Existing Systems	15	
	New IT Developments	40	
Other IT Audit Work			
	Computer Assisted Audit Techniques (CAATs)	10	
	Brought Forward Audits	12	
	Follow-up Audits	8	
SUB-TOTAL DAYS		<b>225</b>	

# Internal Audit and Risk Management

## Internal Audit Plan

### 2005/6



Audit Area		Annual Plan Days	Audit Risk Score
<b>Contract Audit</b>			
	Contract Procedure Rules	20	50
	Capital Programme	20	44
<b>Other Audit Work</b>			
	Brought Forward Audits	5	
	Follow-up Audits	3	
SUB-TOTAL DAYS		<b>48</b>	
<b>Corporate Audits</b>			
	Procurement	30	
	LPSA	40	
	Brought Forward Audits	6	
SUB-TOTAL DAYS		<b>76</b>	
<b>Contingencies</b>			
	Grant certification	15	
	Emerging Issues	30	
	Audit Advice	35	
	Audit Investigations	120	
SUB-TOTAL DAYS		<b>200</b>	
<b>External Bodies</b>			
	CLASP	5	
	Derby CityScape	3	
	Derby Homes	100	
	Derbyshire Fire Authority	60	
SUB-TOTAL DAYS		<b>168</b>	
<b>AUDIT PLAN - TOTAL DAYS</b>		<b>1765</b>	
<b>Governance Work</b>			
	Risk Management	<b>181</b>	
	CIPFA FM Model	<b>35</b>	
	Head of Audit & Risk Management Specific Projects (inc SIC)	<b>52</b>	
SUB-TOTAL DAYS		<b>268</b>	
<b>AUDIT &amp; RISK MANAGEMENT SECTION - TOTAL DAYS</b>		<b>2033</b>	

## 6 Appendix B – 2005/6 Risk Assessment Methodology

### 6.1 Risk Assessment Model

6.1.1 For the 2005/6 risk assessment model we have chosen the following eight risk factors which encapsulate the risks in the Audit universe:

- **Materiality** - Potentially, how much money could the Council lose if this auditable area is not properly controlled?
- **Criticality** - How critical is this function to the effective running of the Council's core activities?
- **Sensitivity** - How important is this auditable area in the opinion of corporate management?
- **Strategic Effect** - How does this function affect the Council's long term aims and objectives?
- **Changes** - How much have things changed in this auditable area since audit were last involved?
- **Complexity** - How complicated is this auditable area?
- **Review Process** - How long has it been since this auditable area has been looked at?
- **Inherent Risk** - How susceptible is this auditable area to fraud and irregularity? Has it been identified in the corporate / departmental risk assessments?

6.1.2 Risk is composed of the two elements: likelihood and impact. The first four risk factors listed above relate to the impact if the risks were to occur; the last four are concerning the likelihood of the risks occurring.

6.1.3 We have decided that each risk factor should be subject to a multiplier of between one and five (see Fig. 1).

**Fig. 1 Risk Factor Weightings**

<b>Risk Factors</b>	<b>Weighting Between 1 &amp; 5</b>
<b>Measures of Impact</b>	
<b>Materiality</b>	4
<b>Criticality</b>	5
<b>Sensitivity</b>	4
<b>Strategic effect</b>	3
<b>Measures of Likelihood</b>	
<b>Changes</b>	4
<b>Complexity</b>	3
<b>Review Process</b>	2
<b>Inherent Risks</b>	5

- 6.1.4 When scoring the inherent risks of each auditable area, we have given specific consideration to any relevant issues identified by the corporate and departmental risk assessments.
- 6.1.5 Two officers have independently scored the risk factors, between one and five, for each auditable area. They have compared their scores and resolved any differences through discussion of their reasoning behind their scores. An agreed score for each risk factor has been arrived at. As a development for the 2005/06 Audit Plan, the scores and reasons have been fully documented.
- 6.1.6 After the scoring ranges and weightings were determined, the risk scores have been stratified to determine the priority of each audit. The risk scores have been stratified to determine the frequency of review and the number of days to be allocated to the audit.
- 6.1.7 Our risk model automatically determines which auditable areas will be looked at more often than others. Those areas with risk scores in the higher frequency stratifications should be looked at more often than those with lower risk scores. It has been decided that the frequency of audit coverage will range from annually to every five years. The range of risk scores possible, given the range of scores and weightings, span from 14 to 74. This range has been split evenly into five categories, which are shown at Fig 2. The risk model allows the calculated frequency to be over-ridden, if we are aware of other considerations which affect our view on the required frequency of coverage for a particular area.

**Fig. 2 Frequency of Coverage Bandings**

Risk Score		Frequency Rating	Every 'x' Years
Greater than or Equal to	Less than		
14	26	Low	5
26	38	Low / Med	4
38	50	Medium	3
50	62	Med / High	2
62	74	High	1

- 6.1.8 Similarly, the auditable areas with risk scores in the highest workday stratification should be allocated more time than those with lower risk scores. It has been decided that the following workday allocations will be applied to each type of Audit work.

**Fig. 3 Workday Allocation Bandings**

Risk Score			Days Allocated	
Greater than or Equal to	Less than	Coverage Rating	Assurance	IT
14	34	Low	15	20
34	54	Medium	20	25
54	74	High	25	30

6.1.9 The range of risk scores possible, given the range of scores and weightings, span from 14 to 74. This range has been split evenly into three categories of High, Medium and Low risk. This can be shown as a matrix. See Fig 4.

**Fig. 4 Risk Score Matrix**

Impact	80	8.94	33	40	45	51	55	60	64	67	71	74
	73	8.54	31	38	43	48	53	57	61	64	68	71
	66	8.11	30	36	41	46	50	54	58	61	64	67
	59	7.66	28	34	39	43	47	51	54	58	61	64
	52	7.18	26	32	36	41	44	48	51	54	57	60
	44	6.67	24	29	34	38	41	44	47	50	53	55
	37	6.11	22	27	31	34	38	41	43	46	48	51
	30	5.50	20	24	28	31	34	36	39	41	43	45
	23	4.81	17	21	24	27	29	32	34	36	38	40
	16	4.00	14	17	20	22	24	26	28	30	31	33
SqRt			3.74	4.50	5.14	5.72	6.24	6.72	7.16	7.59	7.99	8.37
			14	20	26	33	39	45	51	58	64	70
Likelihood												

6.1.10 Once the scores for each auditable area have been input to the risk model, along with the date when the area was last audited, the risk model will automatically generate a five-year rolling plan of suggested audit coverage for those auditable areas that can be risk assessed. Those areas of audit coverage that require a contingency of days to be planned also need to be determined.

## 6.2 Audit Needs Assessment

6.2.1 By taking a simple average of the five-year rolling plan of suggested audit coverage, we derive an assessment of audit's resource needs based on the identified audit universe. This only gives an indication of the resources required to provide sufficient coverage of the auditable areas identified. The availability and cost of audit resources are limiting factors when it comes to audit coverage. Accordingly, the audit planning process brings together the idealism of needs with the reality of resource availability.

### 6.3 Tactical Planning

- 6.3.1 To create an achievable tactical plan the first year of the five-year rolling plan needs to be adjusted to fit with resources available. The number of available days is determined by planning the unavailable time, such as absences, training, management, administration and development for each officer in Audit.
- 6.3.2 Decisions are taken as to which auditable areas need to be dropped from the plan by comparing those audits proposed in the first year of the five-year rolling plan and considering their relative merits when deciding whether or not to keep them in the tactical plan.
- 6.3.3 Our risk model allows us to determine a cut-off risk score, whereby any auditable area with a score below our specified score will not be included in the tactical plan. This allows us to reduce the number of planned jobs, by level of risk, to match with the resources available to the section.
- 6.3.4 Not all areas of Audit's scope can be risk assessed. Certain areas are demand led and require a contingency of days (usually determined by past experience and limited by available resources) to be set-aside in the plan to enable this work to be undertaken (e.g. Audit Advice, Investigations, Emerging IT Issues, New Developments). The days planned for External Contracts are in accordance with the agreements made with those organisations.
- 6.3.5 A number of days must be planned for those jobs from the 2004/5 Plan that are not complete at the year-end. This figure can only be an estimate as the final figure will not be apparent until closer to the year-end.
- 6.3.6 A number of days must also be planned to follow-up the recommendations made in the reports generated from the 2004/5 audits.

### 6.4 Consultation Process

- 6.4.1 Management are consulted on the proposed tactical plan and their views have been taken account of before producing the final, ranked list of auditable areas requiring Audit attention.
- 6.4.2 Discussions have also been undertaken with the External Auditors to ensure that the proposed coverage is in accordance with the Managed Audit approach and does not duplicate any work they propose.